# THE FARM DEBT PROBLEM



LETTER

FROM

## THE SECRETARY OF AGRICULTURE

TRANSMITTING

IN RESPONSE TO HOUSE RESOLUTION NO. 79 A REPORT BASED ON THE STUDY MADE BY THE BUREAU OF AGRICULTURAL ECONOMICS OF THE DEPARTMENT OF AGRICULTURE PERTAINING TO FARM MORTGAGE DEBTS AND THE REFINANCING THEREOF

MARCH 27, 1933.—Referred to the Committee on Agriculture and ordered to be printed, with illustrations

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## LETTER OF TRANSMITTAL

Department of Agriculture,
*Washington, D.C., March 27, 1933.*

The Speaker of the House of Representatives,
*Washington, D.C.*

Sir: Pursuant to the request made under House Resolution No. 69, Seventy-third Congress, I am transmitting herewith report based on the study made by the Bureau of Agricultural Economics pertaining to farm mortgage debts and the refinancing thereof.

Sincerely yours,

H. A. Wallace.

## LETTER OF SUBMITTAL

Department of Agriculture,
Bureau of Agricultural Economics,
*Washington, D. C., March 27, 1933.*

The Secretary of Agriculture.

Dear Mr. Secretary: The House of Representatives of the United States under date of March 22, 1933, adopted the following resolution:

> *Resolved,* That the Secretary of Agriculture is hereby requested to compile through the agency of the Bureau of Agricultural Economics information regarding farm-mortgage debts and the refinancing thereof and to report such information to the House of Representatives as soon as practicable with suggestions as to possible means of adjusting and refinancing farm mortgages and other liens connected therewith.

A report complying with this resolution is herewith submitted. It is based upon studies which this Bureau has been making in the field of farm credit and taxes. The data in this report and the suggested method of adjusting and refinancing farm mortgages have been especially compiled in response to requests received from Members of Congress in December 1932. The suggestions as to possible means of adjusting and refinancing farm mortgages and other liens connected therewith are believed to be equitable to debtors and creditors and, at the same time, would not impose an undue burden on the credit of the Government.

Sincerely yours,

Nils A. Olsen,
*Chief, Bureau of Agricultural Economics.*

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# THE FARM DEBT PROBLEM

## SUMMARY

The farm-mortgage debt in the United States increased from about $3,320,000,000 in 1910 to $9,468,000,000 in 1928. Since 1928 this debt has shown a marked decrease. The amount outstanding in 1933 may be estimated at about $8,500,000,000. Much of the recent decrease has been brought about by foreclosures and other forced sales. In addition to the mortgage debt, American farmers have outstanding personal or short-term debt of various kinds amounting perhaps to more than $3,500,000,000. The total farm indebtedness of all kinds probably amounts to over $12,000,000,000.

The farm-mortgage debt rests upon somewhat more than 40 percent of the farms in the country. With the decrease in land values that has taken place, this debt now represents on the average not far from half the value of all the mortgaged farms. Such debt is, however, very unevenly distributed over the group of farms that are encumbered, varying from very moderate amounts to amounts that exceed the present value of the farms.

About 30 percent of the volume of outstanding farm mortgages is held by individuals, 23 percent by insurance companies, 19 percent by the Federal and joint-stock land banks, 11 percent by commercial banks, 10 percent by mortgage companies, and 7 percent by other firms or agencies.

With 1912–14 land values used as a base and represented by 100 farm values increased to a high point of 170 in 1920. These values have since shown a continuous and more recently an almost precipitous decrease. In March 1930 farm values stood at 115 percent of 1912–14 values; in March 1931 at 106 percent; and in March 1932 at 89 percent. No later estimate is yet available.

The annual interest charges on outstanding farm mortgages rose from a pre-war figure of about $250,000,000 to $568,000,000 in 1925, and has since decreased somewhat. The estimate for 1931 was $520,000,000 and the amount for 1932 probably fell somewhat below $500,000,000. The recent drop in the volume of interest charges has not kept pace with the drop in the volume of debt since mortgages placed or renewed in the past three years have quite generally carried an increased rate of interest. The total annual interest bill of farmers on all classes of debt, including interest on mortgages covering farms held by nonfarmers, can not be very closely estimated, but is believed to fall between $800,000,000 and $900,000,000.

The annual property taxes on all farm property, whether mortgaged or unmortgaged, reached about $777,000,000 in 1929. Of this amount, about $265,000,000 was estimated to fall on those whose farms are mortgaged. Since 1929, farm property taxes have been reduced by an amount approximating 20 percent.

Gross farm income from crops and livestock, which rose to nearly 17 billion dollars in 1919, showed a pronounced drop for 1920 and 1921. It then rose again somewhat and for the years 1923 to 1929

remained at between 11 and 12 billions per year. Since the latter year, it has shown a precipitous decline, falling to $9,347,000,000 in 1930, to $6,920,000,000 in 1931, and to about $5,000,000,000 in 1932.

The farmer's ability to pay interest and taxes has naturally been reduced even more than his gross income, since a substantial part of such income must be used for direct operating costs and necessary living expenses. Many farmers, even among those who have no mortgage obligations, have found it difficult, or impossible, to meet their property taxes from their 1932 income. The fact that prices of what the farmer must buy have not come down proportionately to the drop in prices of farm products, has been a further factor in the farmer's distress. In January 1933 the ratio of prices received by farmers to prices paid by farmers was 49 percent of the corresponding ratio for the 5-year period, 1909–14.

During the 12-month periods ended March 1 of the years 1926 to 1932, inclusive, forced sales by reasons of delinquent debt payments and taxes fell below 20 per 1,000 farms only once, namely, for the year ended March 1, 1929, when the figure was 19.5. For the 12 months ended March 1, 1931, forced sales were 26.1, and for the 12 months ended March 1, 1932, such sales were 41.7 per 1,000 farms. Forced sales by reason of debt obligations were a little more than twice as numerous as such sales by reason of delinquent taxes. No comprehensive figures are at hand to show the additional number of farmers that could have been dispossessed if all creditors had chosen to exercise their legal rights. Since March 1, 1932, the situation has grown very much worse by reason of the further pronounced decline of prices for agricultural commodities.

Most of the various groups of credit agencies in the field of farm credit, have been severely crippled along with their farmer borrowers. Commercial banks, and particularly those serving agricultural communities, have failed in startling numbers, and country bank deposits have been greatly reduced. The total number of bank failures since 1920 has reached about 11,000. Insurance companies have recently been pressed by heavy demands for policy loans and diminishing premium incomes, and many have become unable or disinclined to make new farm loans. The banks of the Federal Farm Loan System have been hard pressed, and the resources of many joint-stock land banks have been seriously impaired. The Federal land banks have been given Federal assistance to strengthen their financial position and grant needed extensions to borrowers. Other mortgage agencies, as well as individual lenders, have in most cases suffered heavy losses, and a discouragingly large percentage of the outstanding farm mortgage loans of all groups of lenders are in arrears on interest and principal payments.

Remedial measures, and such measures are urgently needed, should be directed not only to temporary relief, but also to more permanent adjustment in debt burdens. Suggestions for such measures are presented in the concluding pages of this report. The bases of the suggested program are: (1) Voluntary debt adjustment through the aid of an impartial third party and with recognition of the rights of both borrower and lender; (2) refinancing of farm mortgages at low rate of interest on terms consistent with the debt-carrying capacity of mortgaged farms; and (3) use of Government instrumentalities principally through the Federal land banks and the Reconstruction

Finance Corporation as a basis for refinancing on favorable terms, with a minimum burden on the Federal Treasury.

The Secretary of Agriculture is to set up facilities for bringing about direct agreements between debtors and creditors which will make the debt burden bearable and at the same time recognize the interests of the creditors. Voluntary debt adjustment committees would bring debtors and creditors together in negotiating debt adjustments. Full-time debt adjustment counselors would be appointed by the Secretary of Agriculture to coordinate and aid the voluntary committees. Such counselors could bring to bear the results of experience over a wide area and could simplify the task of local committees, by developing, insofar as possible, uniform policies of extensions and adjustments.

This plan contemplates five alternative methods of refinancing the mortgage debt of the individual farmer.

(1) Advances would be made for paying not more than 2 years' interest and taxes when the mortgage holder is unable or unwilling to assist the mortgagor and the latter has a reasonable chance of working out of his difficulties, if given additional time in meeting his obligations.

(2) Long-term loans for refinancing mortgages which are not in excess of, or are scaled down to, 75 percent of the fair value of the security, would be available where existing mortgage indebtedness, including delinquent interest and taxes, cannot be extended or adjusted.

(3) Second-mortgage loans would be made as an inducement to the holder of a "distressed" first mortgage to scale down his claim to an amount not exceeding 75 percent of the fair value of the farm. The proceeds of such second mortgage would be applied to reduce further the principal of the first-mortgage loan.

(4) Provision is made for exchanging Reconstruction Finance Corporation bonds for outstanding farm mortgages. This would apply to mortgage holders who prefer to exchange their mortgages for low interest rate bonds of the same principal amount.

(5) Provision is made for the purchase of mortgages. In numerous cases it may be possible to purchase mortgages at a substantial discount and rewrite them on the basis of the reduced principal.

In none of the five loan plans is it contemplated that the farmer would increase his total indebtedness. These plans represent an outright reduction in indebtedness through providing credit facilities which will induce existing holders to scale down the principal of their mortgages and a shifting of loan obligations from existing mortgage holders to the Federal agencies which will defer foreclosure.

# THE FARM DEBT PROBLEM

The farm mortgage indebtedness together with the personal and collateral debt of farmers in the United States probably exceeds $12,000,000,000. Of this amount roughly $8,500,000,000 is represented by farm mortgages. Short-term commercial bank loans aggregate about $2,000,000,000. Credit from merchants and dealers, and other interest-bearing debt accounts for the remainder. No basis is available for estimating unpaid cash rentals, taxes due or delinquent, and recent book-account obligations of farmers not here classed as interest-bearing debt.

### FARM-MORTGAGE DEBT

The outstanding farm-mortgage debt in the United States has been estimated on the basis of special studies at various earlier dates as follows:

| | |
|---|---|
| 1910 | $3, 320, 470, 000 |
| 1920 | 7, 857, 700, 000 |
| 1925 | 9, 360, 620, 000 |
| 1928 | 9, 468, 526, 000 |
| 1930 | 9, 241, 390, 000 |

This mortgage debt is shown by States and by geographic divisions in tables 1 and 2, the former giving actual amounts and the latter a percentage distribution. From table 2 it may be noted that about 60 percent of the farm-mortgage debt is in the 12 North Central States and about 20 percent is in the South.

TABLE I.—*Total farm-mortgage debt in the United States January 1, 1910, 1920, 1925, 1928, and 1930* [1]

| Geographic division and State | [2] 1910 | 1920 | 1925 | 1928 | [3] 1930 |
|---|---|---|---|---|---|
| Maine | $13, 210, 000 | $20, 890, 000 | $26, 097, 000 | $25, 252, 000 | $24, 823, 000 |
| New Hampshire | 5, 870, 000 | 8, 600, 000 | 7, 732, 000 | 7, 780, 000 | 9, 901, 000 |
| Vermont | 15, 850, 000 | 29, 040, 000 | 28, 001, 000 | 28, 322, 000 | 33, 102, 000 |
| Massachusetts | 22, 890, 000 | 34, 180, 000 | 32, 207, 000 | 31, 262, 000 | 42, 550, 000 |
| Rhode Island | 2, 210, 000 | 2, 350, 000 | 2, 435, 000 | 2, 455, 000 | 3, 854, 000 |
| Connecticut | 16, 080, 000 | 25, 800, 000 | 27, 276, 000 | 27, 423, 000 | 30, 514, 000 |
| New England | 76, 110, 000 | 120, 860, 000 | 123, 748, 000 | 122, 494, 000 | 144, 744, 000 |
| New York | 154, 190, 000 | 224, 060, 000 | 226, 776, 000 | 219, 812, 000 | 247, 633, 000 |
| New Jersey | 31, 720, 000 | 39, 500, 000 | 41, 741, 000 | 40, 370, 000 | 56, 884, 000 |
| Pennsylvania | 95, 620, 000 | 133, 080, 000 | 120, 281, 000 | 116, 432, 000 | 174, 037, 000 |
| Middle Atlantic | 281, 530, 000 | 396, 640, 000 | 388, 798, 000 | 376, 614, 000 | 478, 554, 000 |
| Ohio | 113, 320, 000 | 210, 760, 000 | 214, 409, 000 | 222, 101, 000 | 259, 630, 000 |
| Indiana | 111, 280, 000 | 206, 600, 000 | 264, 483, 000 | 277, 269, 000 | 266, 989, 000 |
| Illinois | 266, 780, 000 | 502, 860, 000 | 650, 353, 000 | 685, 365, 000 | 631, 266, 000 |
| Michigan | 109, 970, 000 | 215, 740, 000 | 228, 089, 000 | 235, 399, 000 | 230, 377, 000 |
| Wisconsin | 193, 600, 000 | 455, 470, 000 | 504, 553, 000 | 529, 992, 000 | 502, 549, 000 |

[1] Estimated by Division of Agricultural Finance.
[2] Revised.
[3] Preliminary.

TABLE I.—*Total farm-mortgage debt in the United States January 1, 1910, 1920, 1925, 1928, and 1930*—Continued

| Geographic division and State | 1910 | 1920 | 1925 | 1928 | 1930 |
|---|---|---|---|---|---|
| East North Central | $794, 950, 000 | $1, 591, 420, 000 | $1, 861, 887, 000 | $1, 950, 126, 000 | $1, 890, 811, 000 |
| Minnesota | 146, 160, 000 | 455, 540, 000 | 553, 784, 000 | 558, 458, 000 | 530, 025, 000 |
| Iowa | 431, 500, 000 | 1, 098, 970, 000 | 1, 424, 352, 000 | 1, 402, 178, 000 | 1, 098, 610, 000 |
| Missouri | 202, 650, 000 | 335, 790, 000 | 449, 022, 000 | 447, 351, 000 | 428, 227, 000 |
| North Dakota | 101, 450, 000 | 267, 780, 000 | 226, 714, 000 | 230, 250, 000 | 204, 598, 000 |
| South Dakota | 88, 700, 000 | 278, 880, 000 | 372, 004, 000 | 370, 946, 000 | 295, 725, 000 |
| Nebraska | 161, 850, 000 | 416, 860, 000 | 617, 930, 000 | 599, 418, 000 | 560, 973, 000 |
| Kansas | 163, 770, 000 | 295, 870, 000 | 482, 596, 000 | 447, 586, 000 | 487, 122, 000 |
| West North Central | 1, 296, 080, 000 | 3, 199, 690, 000 | 4, 126, 402, 000 | 4, 056, 187, 000 | 3, 605, 280, 000 |
| Delaware | 6, 500, 000 | 8, 990, 000 | 8, 695, 000 | 9, 469, 000 | 11, 841, 000 |
| Maryland | 29, 580, 000 | 49, 230, 000 | 50, 422, 000 | 54, 980, 000 | 64, 825, 000 |
| District of Columbia | 290, 000 | 340, 000 | 304, 000 | 354, 000 | 642, 000 |
| Virginia | 24, 000, 000 | 61, 600, 000 | 79, 709, 000 | 87, 117, 000 | 88, 865, 000 |
| West Virginia | 8, 210, 000 | 15, 960, 000 | 18, 570, 000 | 20, 155, 000 | 24, 283, 000 |
| North Carolina | 18, 960, 000 | 56, 580, 000 | 78, 606, 000 | 90, 866, 000 | 104, 979, 000 |
| South Carolina | 20, 530, 000 | 51, 220, 000 | 68, 735, 000 | 77, 214, 000 | 67, 507, 000 |
| Georgia | 28, 800, 000 | 83, 840, 000 | 109, 060, 000 | 123, 305, 000 | 100, 845, 000 |
| Florida | 4, 380, 000 | 19, 710, 000 | 25, 508, 000 | 28, 436, 000 | 45, 140, 000 |
| South Atlantic | 141, 250, 000 | 347, 470, 000 | 439, 609, 000 | 491, 896, 000 | 508, 927, 000 |
| Kentucky | 40, 510, 000 | 104, 100, 000 | 94, 549, 000 | 103, 798, 000 | 97, 668, 000 |
| Tennessee | 26, 850, 000 | 83, 130, 000 | 85, 857, 000 | 96, 711, 000 | 87, 313, 000 |
| Alabama | 24, 880, 000 | 55, 450, 000 | 66, 410, 000 | 69, 488, 000 | 83, 764, 000 |
| Mississippi | 31, 320, 000 | 77, 420, 000 | 109, 562, 000 | 111, 500, 000 | 96, 864, 000 |
| East South Central | 123, 560, 000 | 320, 100, 000 | 356, 378, 000 | 381, 497, 000 | 365, 609, 000 |
| Arkansas | 22, 200, 000 | 76, 870, 000 | 97, 809, 000 | 103, 464, 000 | 85, 577, 000 |
| Louisiana | 19, 090, 000 | 41, 250, 000 | 57, 910, 000 | 61, 760, 000 | 61, 379, 000 |
| Oklahoma | 77, 680, 000 | 188, 890, 000 | 218, 963, 000 | 228, 513, 000 | 214, 033, 000 |
| Texas | 172, 240, 000 | 396, 670, 000 | 485, 587, 000 | 507, 515, 000 | 543, 951, 000 |
| West South Central | 291, 210, 000 | 703, 680, 000 | 860, 269, 000 | 901, 252, 000 | 904, 940, 000 |
| Montana | 19, 620, 000 | 154, 940, 000 | 116, 616, 000 | 104, 862, 000 | 129, 200, 000 |
| Idaho | 24, 270, 000 | 115, 350, 000 | 107, 355, 000 | 100, 033, 000 | 106, 908, 000 |
| Wyoming | 7, 820, 000 | 32, 970, 000 | 43, 364, 000 | 40, 922, 000 | 42, 948, 000 |
| Colorado | 41, 800, 000 | 138, 400, 000 | 153, 727, 000 | 144, 464, 000 | 146, 462, 000 |
| New Mexico | 4, 810, 000 | 23, 670, 000 | 28, 784, 000 | 26, 900, 000 | 30, 729, 000 |
| Arizona | 4, 880, 000 | 31, 790, 000 | 29, 545, 000 | 29, 006, 000 | 28, 743, 000 |
| Utah | 7, 170, 000 | 35, 550, 000 | 39, 152, 000 | 36, 367, 000 | 46, 273, 000 |
| Nevada | 3, 340, 000 | 11, 880, 000 | 15, 244, 000 | 13, 997, 000 | 14, 737, 000 |
| Mountain | 113, 710, 000 | 544, 550, 000 | 533, 787, 000 | 496, 551, 000 | 546, 000, 000 |
| Washington | 45, 040, 000 | 116, 740, 000 | 121, 371, 000 | 120, 523, 000 | 131, 299, 000 |
| Oregon | 34, 950, 000 | 91, 090, 000 | 105, 503, 000 | 110, 875, 000 | 116, 805, 000 |
| California | 122, 080, 000 | 425, 460, 000 | 442, 868, 000 | 460, 511, 000 | 548, 421, 000 |
| Pacific | 202, 070, 000 | 633, 290, 000 | 669, 742, 000 | 691, 909, 000 | 796, 525, 000 |
| United States | 3, 320, 470, 000 | 7, 857, 700, 000 | 9, 360, 620, 000 | 9, 468, 526, 000 | 9, 241, 390, 000 |

TABLE 2.—*Percentage distribution of total farm-mortgage debt in the United States, by States and geographic division, 1910–30*

| State and geographic division | Percentage of total debt in each State and geographic division | | | | |
|---|---|---|---|---|---|
| | 1910 | 1920 | 1925 | 1928 | 1930 |
| | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* |
| Maine | 0.40 | 0.27 | 0.28 | 0.27 | 0.27 |
| New Hampshire | .18 | .11 | .08 | .08 | .11 |
| Vermont | .48 | .37 | .30 | .30 | .36 |
| Massachusetts | .69 | .43 | .34 | .33 | .46 |
| Rhode Island | .06 | .03 | .03 | .02 | .04 |
| Connecticut | .48 | .33 | .29 | .29 | .33 |
| New England | 2.29 | 1.54 | 1.32 | 1.29 | 1.57 |
| New York | 4.64 | 2.85 | 2.42 | 2.32 | 2.68 |
| New Jersey | .96 | .50 | .45 | .43 | .62 |
| Pennsylvania | 2.88 | 1.70 | 1.28 | 1.23 | 1.88 |
| Middle Atlantic | 8.48 | 5.05 | 4.15 | 3.98 | 5.18 |
| Ohio | 3.41 | 2.68 | 2.29 | 2.34 | 2.81 |
| Indiana | 3.35 | 2.63 | 2.82 | 2.93 | 2.89 |
| Illinois | 8.04 | 6.40 | 6.95 | 7.24 | 6.83 |
| Michigan | 3.31 | 2.74 | 2.44 | 2.49 | 2.49 |
| Wisconsin | 5.83 | 5.80 | 5.39 | 5.60 | 5.44 |
| East North Central | 23.94 | 20.25 | 19.89 | 20.60 | 20.46 |
| Minnesota | 4.40 | 5.80 | 5.92 | 5.90 | 5.74 |
| Iowa | 13.00 | 13.99 | 15.22 | 14.81 | 11.89 |
| Missouri | 6.10 | 4.91 | 4.80 | 4.72 | 4.63 |
| North Dakota | 3.06 | 3.41 | 2.42 | 2.43 | 2.21 |
| South Dakota | 2.67 | 3.55 | 3.97 | 3.92 | 3.20 |
| Nebraska | 4.87 | 5.30 | 6.60 | 6.33 | 6.07 |
| Kansas | 4.93 | 3.76 | 5.15 | 4.73 | 5.27 |
| West North Central | 39.03 | 40.72 | 44.08 | 42.84 | 39.01 |
| Delaware | .20 | .12 | .09 | .10 | .13 |
| Maryland | .89 | .63 | .54 | .58 | .70 |
| District of Columbia | .008 | .004 | .003 | .003 | .01 |
| Virginia | .72 | .78 | .85 | .92 | .96 |
| West Virginia | .25 | .20 | .20 | .21 | .26 |
| North Carolina | .57 | .72 | .84 | .96 | 1.14 |
| South Carolina | .62 | .65 | .74 | .82 | .73 |
| Georgia | .87 | 1.07 | 1.17 | 1.30 | 1.09 |
| Florida | .13 | .25 | .27 | .30 | .49 |
| South Atlantic | 4.25 | 4.42 | 4.70 | 5.19 | 5.51 |
| Kentucky | 1.22 | 1.32 | 1.01 | 1.10 | 1.06 |
| Tennessee | .81 | 1.06 | .92 | 1.02 | .94 |
| Alabama | .75 | .71 | .71 | .73 | .90 |
| Mississippi | .94 | .98 | 1.17 | 1.18 | 1.05 |
| East South Central | 3.72 | 4.07 | 3.81 | 4.03 | 3.95 |
| Arkansas | .67 | .98 | 1.04 | 1.09 | .92 |
| Louisiana | .57 | .53 | .62 | .65 | .66 |
| Oklahoma | 2.34 | 2.40 | 2.34 | 2.42 | 2.32 |
| Texas | 5.19 | 5.05 | 5.19 | 5.36 | 5.89 |
| West South Central | 8.77 | 8.96 | 9.19 | 9.52 | 9.79 |
| Montana | .59 | 1.97 | 1.25 | 1.11 | 1.40 |
| Idaho | .73 | 1.47 | 1.15 | 1.06 | 1.16 |
| Wyoming | .24 | .42 | .46 | .43 | .46 |
| Colorado | 1.26 | 1.76 | 1.64 | 1.52 | 1.59 |
| New Mexico | .14 | .30 | .31 | .28 | .33 |
| Arizona | .15 | .41 | .31 | .31 | .31 |
| Utah | .22 | .45 | .42 | .38 | .50 |
| Nevada | .10 | .15 | .16 | .15 | .16 |
| Mountain | 3.43 | 6.93 | 5.70 | 5.24 | 5.91 |
| Washington | 1.36 | 1.49 | 1.30 | 1.27 | 1.42 |
| Oregon | 1.05 | 1.16 | 1.13 | 1.17 | 1.26 |
| California | 3.68 | 5.41 | 4.73 | 4.87 | 5.94 |
| Pacific | 6.09 | 8.06 | 7.16 | 7.31 | 8.62 |
| United States | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

The volume of outstanding loans in force in December 1932 probably has declined about $1,000,000,000 from the peak of 1928, making

the present debt, as already indicated, something like $8,500,000,000. Some of the evidences of this decline will be found on a succeeding page. No basis for a very close estimate of this decline or of the existing debt as of the close of 1932 is available.

This mortgage debt rests upon about 40 percent of the farms of the country. The proportion of owner-operated farms having mortgage debt rose from 27 percent in 1890 to 42 percent in 1930, the rise in this proportion as indicated by the census reports being as follows:

| Percent of owner-operated farms mortgaged: | |
|---|---|
| 1890 | 27.8 |
| 1900 | 30.0 |
| 1910 | 33.2 |
| 1920 | 37.2 |
| 1930 | 42.0 |

A somewhat smaller proportion of tenant- and manager-operated farms are encumbered than is the case with owner-operated farms. The percentage of farms mortgaged in 1925 and in 1928 is shown for all farms and by tenure groups, for each State and geographic division in table 3. Later data on the frequency of mortgage debt for all farms cannot at present be supplied. The census, it may be recalled, gives mortgage information only with reference to farms operated by the owners. There is reason to believe, however, that no very striking change has occurred since 1928 in the percentage of farms mortgaged. Much of the increase in mortgage frequency that took place in respect of owner-operated farms between 1920 and 1930, as shown by the above census figures, undoubtedly occurred early in the decade when there was considerable funding of short-term debt incurred during or shortly after the World War.

TABLE 3.—*Frequency of mortgage debt on all farms in the United States, and on farms operated by full owners, part owners, and tenants, by States and geographic divisions, January 1, 1925 and 1928*

| State and geographic division | All farms [1] | | Full owner-operated farms | | Part owner-operated farms | | Tenant-operated farms | |
|---|---|---|---|---|---|---|---|---|
| | 1925 | 1928 | 1925 [2] | 1928 | 1925 [2] | 1928 | 1925 | 1928 |
| | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* |
| Maine | 24.6 | 23.9 | 24.6 | 23.8 | 39.9 | 38.6 | 20.2 | 20.4 |
| New Hampshire | 23.3 | 21.8 | 23.5 | 21.9 | 33.3 | 31.0 | 19.3 | 19.5 |
| Vermont | 42.7 | 43.0 | 43.4 | 43.8 | 49.8 | 50.2 | 35.7 | 36.0 |
| Massachusetts | 38.8 | 38.4 | 39.4 | 39.0 | 46.1 | 45.6 | 32.4 | 32.7 |
| Rhode Island | 27.6 | 27.8 | 28.7 | 28.9 | 33.5 | 33.8 | 23.6 | 23.8 |
| Connecticut | 42.2 | 42.6 | 42.9 | 43.3 | 47.9 | 48.3 | 35.3 | 35.6 |
| New England | 33.2 | 32.8 | 33.3 | 33.6 | 44.5 | 44.3 | 27.4 | 27.6 |
| New York | 37.5 | 37.2 | 38.2 | 37.6 | 45.7 | 45.1 | 30.5 | 31.0 |
| New Jersey | 39.8 | 38.8 | 41.1 | 39.6 | 44.5 | 43.1 | 32.8 | 33.2 |
| Pennsylvania | 22.8 | 24.2 | 23.5 | 25.1 | 29.3 | 31.4 | 18.8 | 19.1 |
| Middle Atlantic | 30.7 | 31.1 | 31.4 | 31.8 | 40.3 | 40.5 | 25.1 | 25.5 |
| Ohio | 24.8 | 26.4 | 25.2 | 26.4 | 37.3 | 39.6 | 19.8 | 22.7 |
| Indiana | 34.6 | 35.4 | 33.9 | 34.8 | 48.7 | 50.6 | 30.1 | 30.3 |
| Illinois | 34.9 | 35.3 | 32.6 | 36.4 | 44.0 | 49.7 | 33.8 | 29.1 |
| Michigan | 43.3 | 43.5 | 42.4 | 43.0 | 53.9 | 55.3 | 40.2 | 37.7 |
| Wisconsin | 53.8 | 54.3 | 55.3 | 54.5 | 63.4 | 63.1 | 41.6 | 49.0 |
| East North Central | 37.5 | 38.3 | 38.2 | 39.2 | 47.8 | 50.1 | 31.4 | 34.0 |
| Minnesota | 47.6 | 48.5 | 46.2 | 47.4 | 60.2 | 61.6 | 44.8 | 44.6 |
| Iowa | 50.1 | 50.5 | 53.7 | 53.1 | 63.3 | 62.4 | 43.1 | 44.7 |
| Missouri | 46.3 | 48.7 | 42.0 | 43.8 | 53.6 | 55.7 | 50.6 | 54.3 |
| North Dakota | 57.8 | 58.8 | 59.2 | 60.7 | 69.1 | 70.7 | 46.4 | 46.2 |
| South Dakota | 63.1 | 61.4 | 54.6 | 50.5 | 71.5 | 66.0 | 63.9 | 66.6 |
| Nebraska | 48.1 | 50.3 | 52.0 | 52.2 | 65.8 | 65.8 | 38.3 | 42.7 |
| Kansas | 39.1 | 37.8 | 41.0 | 38.2 | 56.7 | 52.6 | 28.8 | 30.1 |

[1] Includes manager-operated farms.
[2] Derived from census reports of 1925 (20).

TABLE 3.—*Frequency of mortgage debt on all farms in the United States, and on farms operated by full owners, part owners, and tenants, by States and geographic divisions, January 1, 1925 and 1928*—Continued

| State and geographic division | All farms | | Full owner-operated farms | | Part owner-operated farms | | Tenant-operated farms | |
|---|---|---|---|---|---|---|---|---|
| | 1925 | 1928 | 1925 | 1928 | 1925 | 1928 | 1925 | 1928 |
| | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* |
| West North Central | 48.4 | 49.2 | 47.3 | 47.6 | 61.9 | 61.2 | 43.5 | 45.6 |
| Delaware | 28.3 | 27.6 | 27.3 | 24.2 | 12.8 | 11.8 | 30.7 | 34.4 |
| Maryland | 31.7 | 32.9 | 30.0 | 30.5 | 28.9 | 29.8 | 33.7 | 37.8 |
| District of Columbia | 31.7 | 32.9 | 21.6 | 30.5 | 42.9 | 29.8 | 24.3 | 27.3 |
| Virginia | 19.6 | 20.1 | 18.7 | 18.5 | 20.8 | 21.0 | 21.0 | 23.7 |
| West Virginia | 12.5 | 15.0 | 12.0 | 14.7 | 14.7 | 18.4 | 13.5 | 15.4 |
| North Carolina | 20.1 | 22.5 | 18.8 | 20.8 | 22.2 | 25.1 | 21.1 | 23.9 |
| South Carolina | 28.2 | 31.0 | 26.1 | 27.5 | 24.5 | 26.3 | 29.3 | 32.9 |
| Georgia | 29.6 | 31.5 | 27.2 | 26.2 | 27.2 | 26.7 | 30.6 | 34.3 |
| Florida | 20.4 | 20.7 | 19.3 | 19.2 | 22.7 | 23.0 | 21.7 | 24.5 |
| South Atlantic | 23.4 | 25.2 | 20.6 | 21.4 | 22.4 | 23.5 | 23.2 | 26.1 |
| Kentucky | 19.3 | 20.5 | 19.2 | 20.3 | 24.0 | 25.6 | 18.2 | 19.6 |
| Tennessee | 20.0 | 21.1 | 20.1 | 21.0 | 24.3 | 25.6 | 19.0 | 20.5 |
| Alabama | 28.9 | 30.5 | 29.8 | 30.6 | 30.2 | 31.3 | 28.2 | 30.3 |
| Mississippi | 31.9 | 33.7 | 33.0 | 33.9 | 34.8 | 36.0 | 31.2 | 33.5 |
| East South Central | 25.0 | 26.4 | 23.7 | 24.7 | 26.6 | 27.7 | 22.4 | 24.1 |
| Arkansas | 33.7 | 36.7 | 32.5 | 34.9 | 35.4 | 38.0 | 34.3 | 37.8 |
| Louisiana | 28.2 | 30.8 | 27.0 | 29.3 | 32.8 | 35.6 | 28.5 | 31.4 |
| Oklahoma | 47.9 | 50.7 | 45.0 | 45.3 | 58.1 | 58.5 | 47.5 | 52.2 |
| Texas | 34.2 | 36.8 | 32.5 | 33.8 | 42.4 | 44.1 | 34.3 | 37.8 |
| West South Central | 36.0 | 38.7 | 33.9 | 35.5 | 45.2 | 46.7 | 35.8 | 39.4 |
| Montana | 53.0 | 49.0 | 49.3 | 44.8 | 64.9 | 58.9 | 48.0 | 46.5 |
| Idaho | 53.5 | 52.2 | 52.1 | 50.6 | 67.0 | 65.0 | 50.7 | 49.2 |
| Wyoming | 47.7 | 45.6 | 43.8 | 41.6 | 57.9 | 55.0 | 42.6 | 41.3 |
| Colorado | 51.4 | 48.4 | 49.3 | 45.7 | 64.1 | 59.3 | 48.0 | 46.5 |
| New Mexico | 25.6 | 27.6 | 22.5 | 24.6 | 45.1 | 49.3 | 21.9 | 21.2 |
| Arizona | 39.1 | 36.1 | 38.0 | 34.2 | 51.0 | 45.9 | 37.0 | 35.8 |
| Utah | 43.9 | 45.0 | 42.6 | 43.9 | 51.8 | 53.3 | 41.5 | 40.2 |
| Nevada | 33.6 | 36.3 | 32.9 | 35.9 | 45.3 | 49.4 | 32.0 | 31.0 |
| Mountain | 46.6 | 45.0 | 43.4 | 41.8 | 60.3 | 57.3 | 42.2 | 41.0 |
| Washington | 43.3 | 42.8 | 43.8 | 42.7 | 60.3 | 58.9 | 32.1 | 33.7 |
| Oregon | 43.4 | 44.2 | 44.1 | 44.5 | 56.0 | 56.7 | 32.3 | 34.0 |
| California | 44.0 | 46.5 | 45.8 | 47.8 | 53.0 | 55.5 | 33.6 | 35.3 |
| Pacific | 43.7 | 45.0 | 44.9 | 45.8 | 56.2 | 56.8 | 32.9 | 34.6 |
| United States | 34.8 | 36.0 | 34.0 | 34.7 | 48.1 | 48.5 | 32.5 | 34.8 |

In 1930, 56 percent of the farm mortgage debt of the country rested on farms operated by their owners, the remainder was owed by individuals who operated their farms by tenants or managers. This distribution of the debt, by tenure of farms is indicated in the table below.

TABLE 4.—*Estimated farm-mortgage debt in the United States, by tenure, 1920, 1925, 1928, and 1930*

| Year | Total farm-mortgage debt | Owner-operated farms | | Tenant-operated farms | | Manager-operated farms | |
|---|---|---|---|---|---|---|---|
| | | Amount | Percentage of total | Amount | Percentage of total | Amount | Percentage of total |
| 1920 | $7,857,700,000 | $5,314,150,000 | 67.7 | $2,185,480,000 | 27.8 | $350,070,000 | 4.5 |
| 1925 | 9,360,620,000 | 5,504,437,000 | 58.8 | 3,612,193,000 | 38.6 | 243,900,000 | 2.6 |
| 1928 | 9,468,526,000 | 5,560,017,000 | 58.7 | 3,644,009,000 | 38.5 | 264,500,000 | 2.8 |
| 1930 | 9,241,390,000 | 5,185,399,000 | 56.1 | 3,671,677,000 | 39.7 | 384,314,000 | 4.2 |

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The proportion of farm-mortgage debt owed by active farmers is estimated to be approximately 75 percent of the total. This excess over 56 percent, the proportion of debt secured by owner-operated farms (table 4), is due to the fact that many active farmers have more than one farm and that such additional farms, operated by tenants or managers, are more frequently encumbered and when encumbered have indebtedness bearing higher ratios of debt to value than is the case for other tenant- and manager-operated farms.

## SOURCES OF MORTGAGE LOANS

Life insurance companies, considered as a group, are the largest holders of farm mortgages. Their holdings represent nearly 23 percent of the total. Federal land banks are second in importance, their loans representing 12 percent of the total. The volume of the farm-mortgage loans and the percentage of the total held by each of the groups or classes of lenders in 1928 is shown in table 5 while table 6 indicates the geographic distribution of these loans for each group or class.

## RECENT TRENDS IN OUTSTANDING FARM-MORTGAGE LOANS

About the year 1928 the long, and for a time very pronounced, upward trend in the volume of farm-mortgage debt was checked, and was followed by a downward trend which also has become rather surprisingly pronounced. This reversal of trend is clearly shown in figure 1, which indicates for the years 1914–1931, insofar as informa-

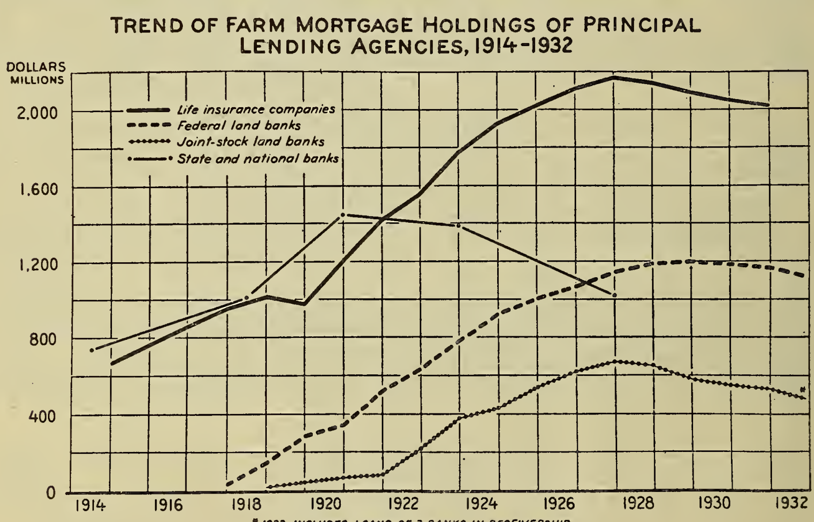


FIGURE 1.

tion is available, the farm-mortgage holdings for each of several groups of lending agencies. The holdings of commercial banks, it may be noted, have declined markedly since 1920. Loans by life insurance companies and joint-stock land banks increased until 1928, but have

since been decreasing. Those of the Federal land banks continued to increase until the middle of 1929, when they too began to evidence a downward tendency.

TABLE 5.—*Farm mortgages held by principal classes of lending agencies, January 1, 1928* [1]

| Lending agencies | Percentage held by each agency | Amount held by each agency |
|---|---|---|
| | *Percent* | |
| Federal land banks | 12.1 | $1,146,000,000 |
| Joint-stock land banks | 7.0 | 667,000,000 |
| Commercial banks | 10.8 | 1,020,000,000 |
| Mortgage companies | 10.4 | 988,000,000 |
| Insurance companies | 22.9 | 2,164,000,000 |
| Retired farmers | 10.6 | 1,006,000,000 |
| Active farmers | 3.6 | 339,000,000 |
| Other individuals | 15.4 | 1,453,000,000 |
| Other agencies | 7.2 | 685,000,000 |
| Total | 100.0 | 9,468,000,000 |

[1] Estimated by Bureau of Agricultural Economics.

TABLE 6.—*Percentage distribution of holdings of principal lending agencies by geographic divisions, January 1, 1928*

| Geographic division | Holdings of principal lending agencies | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total farm mortgage debt 1928 | Federal land banks | Joint-stock land banks | Commercial banks | Mortgage companies | Insurance companies | Retired farmers | Active farmers | Other individual | Other agencies |
| | | *Per cent* | *Per cent* | *Per cent* | *Per cent* | *Per cent* | *Per cent* | *Per cent* | *Per cent* | *Per cent* |
| New England | $122,494,000 | 16.6 | ------ | 37.7 | ------ | (1) | 7.6 | 4.2 | 24.8 | 9.1 |
| Middle Atlantic | 376,614,000 | 11.7 | 6.0 | 10.5 | 0.5 | 0.1 | 19.3 | 9.8 | 34.8 | 7.3 |
| East North Central | 1,950,126,000 | 8.2 | 7.7 | 14.0 | 5.8 | 19.4 | 14.1 | 5.2 | 17.2 | 8.4 |
| West North Central | 4,056,187,000 | 7.0 | 5.4 | 6.2 | 15.1 | 32.3 | 11.8 | 3.1 | 13.3 | 5.8 |
| South Atlantic | 491,896,000 | 21.7 | 16.4 | 10.7 | 1.5 | 12.5 | 4.4 | 2.0 | 23.8 | 7.0 |
| East South Central | 381,497,000 | 34.5 | 7.3 | 11.1 | 2.8 | 28.0 | 3.9 | 2.6 | 7.4 | 2.4 |
| West South Central | 901,252,000 | 23.7 | 11.3 | 4.1 | 14.9 | 25.0 | 4.1 | 1.3 | 7.6 | 8.0 |
| Mountain | 496,551,000 | 21.8 | 4.7 | 16.7 | 14.9 | 5.6 | 7.0 | 3.0 | 19.3 | 7.0 |
| Pacific | 691,909,000 | 11.4 | 6.2 | 28.1 | 5.3 | 7.7 | 9.1 | 3.1 | 15.2 | 13.9 |
| United States | 9,468,526,000 | 12.1 | 7.0 | 10.8 | 10.4 | 22.9 | 10.6 | 3.6 | 15.4 | 7.2 |

[1] Less than 0.05 per cent.

Since 1928, and more particularly since 1930, the total volume of outstanding farm-mortgage debt has quite certainly declined in substantial amount. Approximately $1,500,000,000 in farm-mortgage loans matures each year, most of which is renewed. Recent loaning operations have reflected the influence of declining farm real estate values. Renewed loans, wherever curtailment of larger loans was possible, have represented smaller amounts than the original credit extended. Current payments on amortization loans and gradual reductions provided for in many other farm mortgage loan contracts, have further reduced the amount of outstanding principal. The fact that about two-fifths of the farm-mortgage debt is on tenant and manager-operated farms, many owners of which have incomes other than from their farms, may help to explain such reductions in the outstanding debt as have taken place.

Meanwhile, the volume of new credit extended on farm-land security has been much less in amount than in former years. Throughout the years 1930 to 1932, foreclosures and assignments of deed have continued to extinguish substantial amounts of farm-mortgage obligations.

The tendency toward a reduction in the volume of farm-mortgage debt is further indicated by the outstanding loans of the Federal land banks, the joint-stock land banks, 40 life insurance companies, and member banks of the Federal Reserve System, as shown in table 7. This table gives the actual amounts of farm mortgages held by each of these groups of credit agencies for a series of years. The downward tendency during recent years is again clearly indicated. Farm loans by individuals are believed to have offset to a limited extent the declines indicated in the farm-loan holdings of institutions, but this has not prevented a large net decline.

TABLE 7.—*Farm-mortgage loans outstanding for 4 groups of agencies* [1]

| Year | Federal land banks [2] | Joint-stock land banks [2] | 40 life-insurance companies [3] | Federal Reserve member banks [4] |
|---|---|---|---|---|
| 1917 | [5] $30,000,000 | | | |
| 1918 | 156,000,000 | $8,000,000 | | |
| 1919 | 294,000,000 | 60,000,000 | | |
| 1920 | 350,000,000 | 78,000,000 | | |
| 1921 | 433,000,000 | 85,000,000 | | |
| 1922 | 639,000,000 | 219,000,000 | | |
| 1923 | 800,000,000 | 393,000,000 | $1,335,000,000 | |
| 1924 | 928,000,000 | 446,000,000 | 1,452,000,000 | |
| 1925 | 1,006,000,000 | 546,000,000 | 1,523,000,000 | |
| 1926 | 1,078,000,000 | 632,000,000 | 1,588,000,000 | [6] $489,000,000 |
| 1927 | 1,156,000,000 | 667,000,000 | 1,618,000,000 | [6] 478,000,000 |
| 1928 | 1,194,000,000 | 605,000,000 | 1,606,000,000 | [6] 444,000,000 |
| 1929 | 1,197,000,000 | 585,000,000 | 1,591,000,000 | 388,000,000 |
| 1930 | 1,188,000,000 | 553,000,000 | 1,554,000,000 | 387,000,000 |
| 1931 | 1,163,000,000 | 530,000,000 | 1,512,000,000 | 359,000,000 |
| 1932 | [5] 1,121,000,000 | [5] 415,000,000 | [7] 1,433,000,000 | [7] 368,000,000 |

[1] End of year or end of month.
[2] Federal Farm Loan Board. Beginning 1928 loans from joint-stock land banks in receivership not included.
[3] Association of Life Insurance Presidents reports cover operations of 40 companies representing 82 percent of the admitted assets of all legal-reserve life companies in the United States.
[4] Federal Reserve Board. Does not include farm mortgages held by banks in receivership.
[5] Nov. 30. Does not include $53,000,000 owed to 3 banks placed in receivership in 1932.
[6] June 30.
[7] Sept. 30.

## FARM REAL-ESTATE VALUES

Closely related to farm-mortgage credit is farm real-estate value, because the latter provides the security for the former. During the past two decades, the great increase in prices incident to the conduct of a great war greatly stimulated an upward trend in real-estate values, and the successive price declines in subsequent years have led to declining values, lost equities, and numerous foreclosures.

The trend of farm real-estate values over the last 20 years is indicated in figure 2 and table 8. In most sections values rose rapidly after 1915, and by 1920 had reached a peak far above any previous level, the United States average being 170 percent of the average for 1912–14. This peak level marked the culmination of a marked upward trend which had existed since about 1900, but which became especially rapid between 1915 and 1920.

The circumstances accompanying the marked upward trend after 1900 were to a large extent those of a rapidly growing country with expanding agriculture, a rapidly increasing population, a growing

FARM REAL ESTATE: INDEX NUMBERS OF ESTIMATED VALUE PER ACRE, AS OF MARCH 1, BY GEOGRAPHIC DIVISIONS, 1912-1932

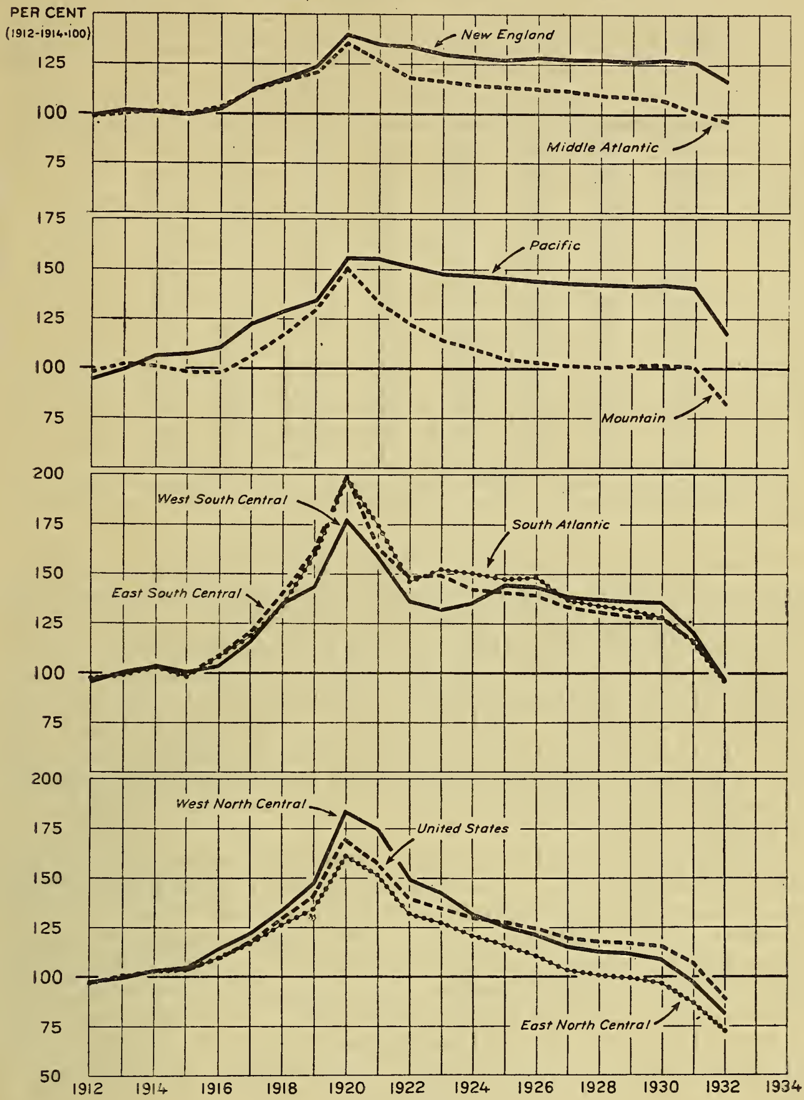


FIGURE 2.

interdependence between agriculture and industry, a rising trend of purchasing power of agricultural products in terms of nonagricultural products, together with a general price level which had shown a persistent upward trend beginning with about 1896. The final rapid

rise in farm real-estate values culminating in 1920 was primarily the result of war prices.

TABLE 8.—*Farm real estate: Index numbers of estimated value per acre by geographic divisions, as of March 1, 1912–32* [1]

[1912–14=100 percent[

| Year | New England | Middle Atlantic | East North Central | West North Central | South Atlantic | East South Central | West South Central | Mountain | Pacific | United States |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* |
| 1912 | 99 | 98 | 97 | 97 | 98 | 97 | 96 | 98 | 94 | 97 |
| 1913 | 101 | 100 | 100 | 100 | 100 | 100 | 100 | 102 | 99 | 100 |
| 1914 | 100 | 102 | 103 | 103 | 103 | 103 | 104 | 100 | 106 | 103 |
| 1915 | 99 | 100 | 104 | 105 | 98 | 99 | 100 | 98 | 107 | 103 |
| 1916 | 102 | 104 | 110 | 114 | 108 | 109 | 103 | 98 | 111 | 108 |
| 1917 | 112 | 112 | 116 | 122 | 119 | 120 | 116 | 106 | 122 | 117 |
| 1918 | 117 | 117 | 127 | 134 | 135 | 140 | 134 | 117 | 129 | 129 |
| 1919 | 123 | 121 | 135 | 147 | 161 | 162 | 143 | 130 | 134 | 140 |
| 1920 | 140 | 136 | 161 | 184 | 198 | 199 | 177 | 151 | 156 | 170 |
| 1921 | 135 | 127 | 151 | 174 | 174 | 163 | 159 | 133 | 155 | 157 |
| 1922 | 134 | 118 | 132 | 150 | 146 | 149 | 136 | 122 | 151 | 139 |
| 1923 | 130 | 116 | 128 | 142 | 152 | 149 | 132 | 115 | 148 | 135 |
| 1924 | 128 | 114 | 121 | 132 | 151 | 142 | 136 | 110 | 147 | 130 |
| 1925 | 127 | 114 | 116 | 126 | 148 | 141 | 144 | 105 | 146 | 127 |
| 1926 | 128 | 113 | 111 | 121 | 149 | 139 | 144 | 103 | 144 | 124 |
| 1927 | 127 | 111 | 104 | 115 | 137 | 133 | 139 | 101 | 143 | 119 |
| 1928 | 127 | 110 | 101 | 113 | 134 | 130 | 137 | 101 | 142 | 117 |
| 1929 | 126 | 109 | 100 | 112 | 132 | 129 | 136 | 101 | 142 | 116 |
| 1930 | 127 | 106 | 96 | 109 | 128 | 128 | 136 | 102 | 142 | 115 |
| 1931 | 126 | 101 | 87 | 97 | 116 | 117 | 121 | 100 | 140 | 106 |
| 1932 | 116 | 96 | 73 | 81 | 96 | 97 | 97 | 82 | 118 | 89 |

[1] All farm land with improvements. Owing to rounding of figures, 1912–14 will not always equal exactly 100 percent.

Following the crash in prices of 1920, both prices of farm commodities and the general price level became fairly stable beginning about 1923, at levels appreciably higher than the 1910–14 average. Farm real-estate values declined from the 1920 peak to lower levels, although at a less rapid rate. The small declines in the United States average during 1928 and 1929 lent support to the belief that the readjustment was nearing completion, although forced sales were still high, and some States continued to report appreciable declines in value. The rates of decline in different parts of the country were not uniform, and reflected the course of prices and other economic conditions in the different sections.

In the Cotton Belt, for example, farm real-estate values dropped sharply after 1920, but recovered somewhat in 1924 and 1925, following improved cotton prices, and again declined slightly in 1926 and later years, finding in 1930 a level approximately 30 percent above 1912–14. Farm real-estate values in Corn Belt States experienced no such arrested decline, but continued downward, and in 1930 were approximately at the pre-war level. In States surrounding the Great Lakes and devoted largely to dairying, the decline in farm real-estate values was more gradual, but was fairly persistent, and in 1930 values averaged approximately 20 percent above those of 1912–14.

Just at this time the renewed decline in commodity prices occurred, farm products declining most. Land values followed shortly, and from March 1, 1930, to March 1, 1931, the United States average declined from 115 percent of pre-war to 106, and from March 1, 1931,

to March 1, 1932, it declined from 106 percent to 89 percent, or to 11 percent below the 1912–14 average. As indicated in table 8, the average value per acre of farm real estate in the East North Central States as of March 1, 1932, was 73 percent of the pre-war 1912–14 average. The corresponding figure for the Pacific States is 118 percent. Averages for other areas lie between these two extremes. Considering the further decline in incomes during 1932, it would be surprising if land values do not reflect some further declines as of March 1, 1933.

Farm real estate values have fallen not only as a result of changes in prices of farm products; there has been in addition some depreciation of physical plant as well. Farm maintenance on an adequate scale has been difficult. Buildings, fences, and other improvements have not in all cases received normal care or replacement, and upkeep of terraces, drainage and irrigation works, the control of soil erosion, and brush and weed control have suffered to some extent.

The recent drop in farm real estate values is in contrast to the decline from 1920 for the reason that the earlier decline started from peak levels which were reached as a result of a boom, whereas the current decline commenced from a level reached after a decade of deflation in farm real estate values. During about 7 years of this decade prices of farm products were fairly stable even though the ratio of prices received by farmers to prices paid by them remained less than in 1910–14. Beginning with 1930 the downward trend in land values became more abrupt, and where the average for such values stands at the close of 1932 cannot as yet be indicated.

### MORTAGE DEBT IN RELATION TO FARM REAL ESTATE VALUE

In relation to the value of agricultural real estate, including both mortgaged and unmortgaged farms, mortgage-secured credit rose from approximately 10 percent in 1910 to 20 percent in 1930. Conversely, equity of farm owners declined between these dates from 90 percent to 80 percent. These relationships for the census years beginning with 1910 and including the special agricultural census of 1925 have been estimated as follows:

| | 1910 | 1920 | 1925 | 1930 |
|---|---|---|---|---|
| Percent which mortgage credit is of value of all farms | 9.5 | 11.8 | 18.9 | 20 |
| Percent of value of all farms above mortgage debt | 90.5 | 88.2 | 81.1 | 80 |

When only the mortgaged farms are considered, the average ratio of mortgage debt to the value of full-owner farms was approximately 40 percent in 1930. These ratios taken from the census reports beginning with 1890 are as follows:

| Ratio, debt to value of mortgaged full-owner farms: | Percent |
|---|---|
| 1890 | 35.5 |
| 1910 | 27.3 |
| 1920 | 29.1 |
| 1925 | 41.9 |
| 1930 | 39.6 |

Just where these ratios of debt to value stand at the close of 1932 is not at present known. Although the total farm mortgage debt has shrunken materially, it seems probable that farm values have shrunken even more, and that therefore the ratios have increased.

According to a special inquiry as of January 1, 1932, 25 percent of the mortgaged farms reporting were indebted for 25 percent or less of their value; 38 percent were mortgaged for between 25 and 50 percent of their value; 21 percent were mortgaged for between 50 and 75 percent of their value; 11 percent were mortgaged between 75 and 100 percent of their value; and 5 percent were mortgaged for more than 100 percent of their value. What has happened in the last 12 months cannot as yet be measured.

The proportion of farms with high debt ratios at the beginning of 1932 was largest in the West North Central States where nearly 8 percent of mortgaged debtors reported debt in excess of their farm values; 22 percent reported mortgage debt in excess of 75 percent of their farm values; and 46 percent reported mortgage debt equal to more than half their land values. The most favorable mortgage debt situation was in New England, where 80 percent of the mortgaged farms carried debt equal to less than one-half their values.

Farms operated by their owners showed a greater proportion of high debt ratio throughout the country than did farms of other tenure, 5.3 percent of the mortgaged owner-operated farms being indebted for more than their full values, as contrasted with 4.2 percent for farms operated by tenants and managers. Reports from individual farm owners, actual farmers as well as other owners, indicate that the proportion of all mortgaged farms indebted for more than their value was 4.4 percent in January 1928; 5.2 percent in January 1931; and 5 percent in January 1932.

This distribution of mortgaged farms by debt-to-value ratios is shown by geographic divisions in table 9 while table 10 gives cumulative figures for percentages of farms that carry debt in excess of stipulated ratios.

TABLE 9.—*Distribution of mortgaged farms by ratio of debt to value, January 1, 1932* [1]

| Geographic divisions | 0.1 to 10 | 10.1 to 20 | 20.1 to 30 | 30.1 to 40 | 40.1 to 50 | 50.1 to 60 | 60.1 to 70 | 70.1 to 80 | 80.1 to 90 | 90.1 to 100 | Over 100 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* |
| New England | 5.4 | 15.5 | 20.3 | 18.9 | 10.8 | 13.5 | 10.1 | 1.4 | 0.7 | 2.0 | 1.4 |
| Middle Atlantic | 6.7 | 12.0 | 15.9 | 17.7 | 15.8 | 11.0 | 8.0 | 5.2 | 2.5 | 2.7 | 2.5 |
| East North Central | 3.9 | 10.0 | 12.6 | 16.7 | 16.6 | 10.0 | 8.7 | 7.5 | 4.1 | 4.7 | 5.2 |
| West North Central | 4.2 | 9.6 | 13.5 | 13.1 | 13.6 | 9.5 | 10.0 | 7.2 | 5.4 | 6.3 | 7.6 |
| South Atlantic | 7.0 | 14.5 | 13.8 | 17.5 | 13.2 | 9.0 | 6.3 | 5.7 | 4.1 | 5.0 | 3.9 |
| East South Central | 6.9 | 14.5 | 15.0 | 16.8 | 14.0 | 10.0 | 5.3 | 4.8 | 4.8 | 3.1 | 4.8 |
| West South Central | 7.3 | 13.1 | 17.0 | 16.7 | 15.2 | 9.5 | 7.9 | 4.5 | 2.9 | 2.8 | 3.1 |
| Mountain | 6.6 | 13.4 | 18.9 | 16.2 | 14.7 | 9.0 | 8.1 | 5.0 | 2.6 | 2.2 | 3.3 |
| Pacific | 7.6 | 16.1 | 21.2 | 16.6 | 14.6 | 7.1 | 6.5 | 3.2 | 1.3 | 2.2 | 3.6 |
| United States | 5.7 | 12.0 | 15.3 | 15.7 | 14.6 | 9.5 | 8.3 | 5.8 | 3.9 | 4.2 | 5.0 |

[1] Based on 16,704 farms of all tenures.

TABLE 10.—*Cumulative percentages of mortgaged farms having mortgage indebtedness above specified proportions of farm value—January 1, 1932* [1]

| Geographic divisions | Over 100 | Over 90 | Over 80 | Over 70 | Over 60 | Over 50 | Over 40 | Over 30 | Over 20 | Over 10 | Over 0.1 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* |
| New England | 1.4 | 3.4 | 4.1 | 5.5 | 15.6 | 29.1 | 39.9 | 58.8 | 79.1 | 94.6 | 100.0 |
| Middle Atlantic | 2.5 | 5.2 | 7.7 | 12.9 | 20.9 | 31.9 | 47.7 | 65.4 | 81.3 | 93.3 | 100.0 |
| East North Central | 5.2 | 9.9 | 14.0 | 21.5 | 30.2 | 40.2 | 56.8 | 73.5 | 86.1 | 96.1 | 100.0 |
| West North Central | 7.6 | 13.9 | 19.3 | 26.5 | 36.5 | 46.0 | 59.6 | 72.7 | 86.2 | 95.8 | 100.0 |
| South Atlantic | 3.9 | 8.9 | 13.0 | 18.7 | 25.0 | 34.0 | 47.2 | 64.7 | 78.5 | 93.0 | 100.0 |
| East South Central | 4.8 | 7.9 | 12.7 | 17.5 | 22.8 | 32.8 | 46.8 | 63.6 | 78.6 | 93.1 | 100.0 |
| West South Central | 3.1 | 5.9 | 8.8 | 13.3 | 21.2 | 30.7 | 45.9 | 62.6 | 79.6 | 92.7 | 100.0 |
| Mountain | 3.3 | 5.5 | 8.1 | 13.1 | 21.2 | 30.2 | 44.9 | 61.1 | 80.0 | 93.4 | 100.0 |
| Pacific | 3.6 | 5.8 | 7.1 | 10.3 | 16.8 | 23.9 | 38.5 | 55.1 | 76.3 | 92.4 | 100.0 |
| United States | 5.0 | 9.2 | 13.1 | 18.9 | 27.2 | 36.7 | 51.3 | 67.0 | 82.3 | 94.3 | 100.0 |

[1] Based on 16,704 farms.

## PROPORTION THAT FARMS WITH HEAVY DEBT ARE OF ALL FARMS

When the various classes of encumbered farms are combined with those free from mortgage, the results indicate that, as of January 1, 1932, farms mortgaged for more than full value constituted 2 percent of all farms, and those with debt ranging from 75 percent to full value totaled 4 percent of all farms. This proportion that the number of farms mortgaged to varying percentages of the values constituted of all farms in the United States, at the beginning of 1932, may be more fully shown as follows:

| *Ratio group percent of debt to value of farm* | Percent of all farms [9] |
|---|---|
| 0 | 60 |
| 1–25 | 10 |
| 25–50 | 15 |
| 50–75 | 9 |
| 75–100 | 4 |
| Over 100 | 2 |

## INTEREST RATES ON FARM MORTGAGE LOANS

Interest rates on outstanding farm mortgage loans, according to the Census Reports, averaged 6.1 percent in 1920 and interest and commission charged averaged 6.1 percent in 1930. Commission charges average approximately 0.2 percent according to reports from farm-mortgage brokers. Substantial proportions of the total farm-mortgage debt carry rates varying all the way from 5 percent to 8 percent, the higher rates being relatively more common in the Western and Southern States. These average rates are shown, by States, in table 11. That these rates do not vary more than they do for different parts of the country, may be ascribed in part at least to the influence of the Federal Farm Loan System, with its relatively uniform rates for all parts of the country. The effects of remoteness from money centers and varying degrees of risk in agriculture, is still discernible in the average rates reported for the different States. Variations in farm mortgage rates were noticeably more pronounced, however, before the Federal and joint-stock land banks entered the field.

[9] Estimates based on 1930 census for owner-operated farms and on Bureau of Agricultural Economics studies of relative mortgage frequency on farms of other tenure.

TABLE 11.—*Charges on farm-mortgage debt by States and geographic divisions*

| Geographic division and State | Average rate of interest on mortgage debt, 1920 | Charges on mortgage (interest, etc.), 1930 | Geographic division and State | Average rate of interest on mortgage debt, 1920 | Charges on mortgage (interest, etc.), 1930 |
|---|---|---|---|---|---|
| | *Percent* | *Percent* | | *Percent* | *Percent* |
| United States | 6.1 | 6.10 | South Atlantic—Continued. | | |
| New England | 5.7 | 6.06 | Virginia | 5.9 | 6.18 |
| Maine | 6.1 | 6.48 | West Virginia | 5.9 | 6.31 |
| New Hampshire | 5.1 | 5.55 | North Carolina | 6.0 | 6.34 |
| Vermont | 5.4 | 5.78 | South Carolina | 7.3 | 7.33 |
| Massachusetts | 5.7 | 6.14 | Georgia | 7.3 | 7.07 |
| Rhode Island | 5.8 | 6.31 | Florida | 7.3 | 7.57 |
| Connecticut | 5.7 | 5.99 | East South Central | 6.4 | 6.51 |
| Middle Atlantic | 5.4 | 5.91 | Kentucky | 6.0 | 6.12 |
| New York | 5.4 | 5.95 | Tennessee | 6.2 | 6.36 |
| New Jersey | 5.4 | 6.18 | Alabama | 7.5 | 7.29 |
| Pennsylvania | 5.3 | 5.76 | Mississippi | 6.5 | 6.98 |
| East North Central | 5.6 | 5.84 | West South Central | 7.2 | 6.82 |
| Ohio | 5.9 | 6.22 | Arkansas | 7.8 | 7.48 |
| Indiana | 5.8 | 6.11 | Louisiana | 7.2 | 7.14 |
| Illinois | 5.5 | 5.76 | Oklahoma | 6.6 | 6.38 |
| Michigan | 6.0 | 6.30 | Texas | 7.3 | 6.82 |
| Wisconsin | 5.3 | 5.49 | Mountain | 7.3 | 6.93 |
| West North Central | 5.8 | 5.77 | Montana | 7.6 | 6.76 |
| Minnesota | 5.8 | 5.70 | Idaho | 7.3 | 6.91 |
| Iowa | 5.5 | 5.53 | Wyoming | 7.7 | 6.75 |
| Missouri | 6.1 | 6.15 | Colorado | 6.8 | 6.74 |
| North Dakota | 6.7 | 6.40 | New Mexico | 7.3 | 7.35 |
| South Dakota | 5.9 | 5.86 | Arizona | 7.5 | 7.55 |
| Nebraska | 5.7 | 5.66 | Utah | 7.1 | 7.20 |
| Kansas | 6.0 | 6.00 | Nevada | 6.7 | 6.82 |
| South Atlantic | 6.4 | 6.50 | Pacific | 6.6 | 6.74 |
| Delaware | 5.7 | 6.06 | Washington | 6.6 | 6.65 |
| Maryland | 5.6 | 5.97 | Oregon | 6.5 | 6.41 |
| District of Columbia | 5.8 | 5.88 | California | 6.6 | 6.83 |

Table 12 shows the average rates, by principal lending agencies and by geographic divisions, for the year 1928. Although the rates shown in this table are about 4 years old, they may nevertheless be found of interest as reflecting a tendency toward different rates by different groups or classes of lenders. This difference has tended to persist for all years for which figures are available.

TABLE 12.—*Interest charged by principal lending agencies on farm-mortgage loans outstanding, January 1, 1928, by geographic divisions* [1]

| Geographic divisions | Principal lending agency | | | | | | | | | All sources[2] | Average rate of all owner-operated farms, 1920 [3] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Federal land banks | Joint-stock land banks | Commercial banks | Mortgage companies | Insurance companies | Retired farmers | Active farmers | Other individuals | Other agencies | | |
| | *Pct.* | *Pct.* | *Pct.* | *Pct.* | *Pct.* | *Pct.* | *Pct.* | *Pct.* | *Pct.* | *Pct.* | *Pct.* |
| New England | 5.4 | 6.0 | 5.9 | ------- | 6.0 | 5.8 | 5.7 | 6.0 | 5.8 | 5.8 | 5.7 |
| Middle Atlantic | 5.5 | 6.0 | 6.0 | 5.2 | 6.2 | 5.5 | 5.5 | 5.6 | 5.8 | 5.7 | 5.4 |
| East North Central | 5.5 | 5.9 | 6.1 | 5.6 | 5.3 | 5.4 | 5.8 | 5.6 | 6.2 | 5.6 | 5.6 |
| West North Central | 5.4 | 5.8 | 6.2 | 5.7 | 5.3 | 5.4 | 5.8 | 5.6 | 5.7 | 5.5 | 5.8 |
| South Atlantic | 5.6 | 5.9 | 7.2 | 6.3 | 6.7 | 6.7 | 7.1 | 7.0 | 6.8 | 6.6 | 6.4 |
| East South Central | 5.6 | 5.9 | 6.6 | 6.2 | 5.7 | 7.0 | 5.9 | 6.5 | 6.2 | 5.9 | 6.4 |
| West South Central | 5.4 | 6.0 | 7.7 | 6.9 | 6.7 | 7.0 | 7.7 | 7.9 | 5.7 | 6.6 | 7.2 |
| Mountain | 5.6 | 6.0 | 7.6 | 7.3 | 6.8 | 6.7 | 7.5 | 7.4 | 7.1 | 6.7 | 7.3 |
| Pacific | 5.6 | 6.0 | 6.9 | 6.4 | 6.1 | 6.4 | 6.4 | 6.5 | 6.6 | 6.5 | 6.6 |
| United States | 5.5 | 5.9 | 6.7 | 6.1 | 5.5 | 5.8 | 6.1 | 6.2 | 6.2 | 5.8 | 6.1 |

[1] Reports from farmers. [2] Weighted by geographic divisions. [3] Census, 1920 (19).

## TERM OF FARM MORTGAGE LOANS AND METHODS OF REPAYMENT

The prevailing term of farm mortgages in the United States is 5 years. When the loans of the Federal and joint-stock land banks are included, these loans being mainly for terms of 30 years or more, the average term of all loans is approximately 8 years. The percentage distribution of farm-mortgage loans, by length of term and by classes of lending agencies, is shown in table 13.

TABLE 13.—*Length of term of farm-mortgage loans: Percentage distribution of holdings of principal lending agencies* [1]

| Agency | Average term | Percentage of loans for— | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1 year | 2 to 4 years | 5 years | 10 years | 11 to 30 years | Over 30 years |
| | *Years* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* | *Percent* |
| Insurance companies | 5.6 | 4.4 | 13.3 | 64.8 | 14.6 | 2.5 | 0.4 |
| Federal land banks | 33.0 | | | | | | 100.0 |
| Joint-stock land banks | 33.0 | | | | | | 100.0 |
| Commercial banks | 2.6 | 52.1 | 19.9 | 26.7 | .7 | .6 | |
| Mortgage companies | 6.2 | .3 | 2.8 | 74.5 | 20.6 | 1.8 | |
| Other sources [2] | 4.7 | 20.1 | 13.5 | 53.6 | 11.1 | 1.7 | |
| All agencies | 8.5 | 17.5 | 11.7 | 46.5 | 9.6 | 1.5 | 13.2 |

[1] Data as of Jan. 1, 1924.
[2] Computed from reports of other than land-bank sources.

The data shown in this table, it will be noted, are for the year 1924. A more recent tabulation of this nature is not available, and in any case the average term of loans tends to change but little over short periods of time.

Most farm mortgages made in past years have been payable in full at the end of the term. Probably about 25 percent of all loans, mainly those made by the Federal and joint-stock land banks, have been made on the amortization plan. In recent years, however, there has been a marked increase in the requirement of gradual payments as a condition of loans granted by other lending agencies. In more normal times such a plan may be considered desirable, but under existing conditions it tends to impose added hardships on borrowers. The most common means of caring for mortgages falling due, aside from amortization loans, has been by renewal or extension.

## TIME REQUIRED TO PAY OFF FARM MORTGAGES

Farm-mortgage indebetedness is paid off only slowly and after a long period of years in most instances. The rate at which farms were cleared of debt during the years 1925 to 1928 indicated that under the conditions prevailing at that time the average encumbered farm would remain mortgaged for a period of about 30 years. Table 14 gives more detailed information regarding the duration of farm mortgages.

Table 14.—*Average number of years mortgaged farms remain under mortgage, computed on basis of rate at which new mortgages were incurred, and rate at which mortgaged farms were cleared of debt, 1925–28*

| Geographic division | On basis of rate at which new mortgages were made: Rate at which farms become mortgaged [1] | On basis of rate at which new mortgages were made: Percentage of all farms having mortgage debt [1] | On basis of rate at which new mortgages were made: Average period farms remain mortgaged [2] | On basis of rate mortgages were paid off: Rate at which mortgaged farms were cleared of debt [1] | On basis of rate mortgages were paid off: Average period farms remain mortgaged [3] | Average term of debt [4] |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | *Percent* | *Percent* | *Years* | *Percent* | *Years* | *Years* |
| New England | 0.86 | 32.8 | 38.1 | 1.00 | 32.8 | 35.4 |
| Middle Atlantic | 1.15 | 31.1 | 27.0 | .97 | 32.1 | 29.6 |
| East North Central | 1.32 | 38.3 | 29.0 | .89 | 43.0 | 36.0 |
| West North Central | 1.22 | 49.2 | 40.3 | .99 | 49.7 | 45.0 |
| South Atlantic | 1.54 | 26.0 | 16.9 | 1.12 | 23.2 | 20.0 |
| East South Central | 1.38 | 26.4 | 19.1 | .98 | 26.9 | 23.0 |
| West South Central | 2.04 | 38.7 | 18.9 | 1.14 | 33.9 | 26.4 |
| Mountain | 1.29 | 45.1 | 35.0 | 1.40 | 32.2 | 33.6 |
| Pacific | 1.59 | 45.0 | 28.3 | 1.23 | 36.6 | 32.4 |
| United States | 1.45 | 36.0 | 24.7 | 1.03 | 34.6 | 29.6 |

[1] Average 1925–28 expressed as percent of all farms.
[2] Column 3÷column 2.
[3] Column 6÷column 5.
[4] Average of columns 4 and 6.

## TOTAL FARM MORTGAGE INTEREST BILL

The volume of annual farm mortgage interest charges in recent years has amounted to between $500,000,000 and $600,000,000, the amount having recently declined somewhat with the reduction in the volume of obligations. The estimated amount of these charges, by years, since 1909 is shown in table 15.

Table 15.—*Annual amount of interest on farm mortgages* [1]

| | | | |
|---|---|---|---|
| 1909 | $199,000,000 | 1921 | $554,000,000 |
| 1910 | 210,000,000 | 1922 | 568,000,000 |
| 1911 | 221,000,000 | 1923 | 564,000,000 |
| 1912 | 232,000,000 | 1924 | 567,000,000 |
| 1913 | 240,000,000 | 1925 | 568,000,000 |
| 1914 | 252,000,000 | 1926 | 568,000,000 |
| 1915 | 269,000,000 | 1927 | 568,000,000 |
| 1916 | 299,000,000 | 1928 | 563,000,000 |
| 1917 | 345,000,000 | 1929 | 554,000,000 |
| 1918 | 401,000,000 | 1930 | 540,000,000 |
| 1919 | 479,000,000 | 1931 | 520,000,000 |
| 1920 | 545,000,000 | | |

When there is added to the above amounts of interest on farm mortgage debt an amount equal to about 8 percent annually on the $2,000,000,000 of short-term credit from banks, and 15 to 20 percent on the $1,000,000,000 or more of merchant credit, the total annual charge indicated, is between $800,000,000 and $900,000,000. This volume of interest is not all due from actual farmers, however, since many of the owners of tenant and manager-operated farms are business or professional men.

[1] Does not include commissions.

## FARM TAXES

The annual amount of taxes on farm property nearly equals the interest charges on all farm debt, including mortgage debt as well as short-term debt. The amount of these taxes, real estate and personal, levied against farm property for the years 1909–1932 has been estimated as shown in table 16.

Table 16.—*Farm property taxes, 1909–1932*

| | | | |
|---|---|---|---|
| 1909 | $262, 000, 000 | 1921 | $633, 000, 000 |
| 1910 | 268, 000, 000 | 1922 | 678, 000, 000 |
| 1911 | 275, 000, 000 | 1923 | 718, 000, 000 |
| 1912 | 278, 000, 000 | 1924 | 727, 000, 000 |
| 1913 | 286, 000, 000 | 1925 | 729, 000, 000 |
| 1914 | 292, 000, 000 | 1926 | 738, 000, 000 |
| 1915 | 298, 000, 000 | 1927 | 754, 000, 000 |
| 1916 | 304, 000, 000 | 1928 | 766, 000, 000 |
| 1917 | 310, 000, 000 | 1929 | 777, 000, 000 |
| 1918 | 345, 000, 000 | 1930 | 777, 000, 000 |
| 1919 | 380, 000, 000 | 1931 | [1] 730, 000, 000 |
| 1920 | 452, 000, 000 | 1932 | [1] 629, 000, 000 |

These taxes are, of course, spread over all farm property, and do not, like the interest charges, rest upon a portion of the farms and farmers. The taxes constitute strictly a first lien against the property on which they are levied, taking precedence even over so-called first mortgages.

The combined fixed annual charges against farm real estate, in the form of interest and taxes, has for recent years exceeded $1,200,000,000. When the interest on short-term farm credit and the tax on personal property of farmers is included in the total annual charges, the sum becomes about $1,600,000,000.

## INTEREST AND TAX CHARGES AGAINST MORTGAGED FARMS

In an effort to show, roughly at least, what part of the annual mortgage interest and farm taxes rest upon farms with different ratios of debt to value table 17 has been prepared. This table gives, by geographic divisions, and for the country as a whole, the estimated mortgage charges for 1928 and also the estimated 1929 property taxes carried by mortgaged farms. Both of these fixed charges are then distributed among the groups of mortgaged farms based on the ratio of debt to value of such farms. The last group of farms, in table 17, for example, namely, that carrying mortgages equal to over 80 percent of the value, and which, as indicated earlier in this report, comprises about 13 percent of all mortgaged farms, carries total annual interest charges of $155,015,000 and annual property taxes of $37,584,000.

The figures in this table should not be considered highly accurate, since they involve the assumption that the farms mortgaged at the various ratios of debt to value have the same average value in each ratio group, and a corresponding assumption is involved with reference to the average amount of property taxes resting on the farms in the six ratio groups. It is not believed, however, that if the actual figures were available the picture presented by table 17 would be greatly altered.

[1] Preliminary.

TABLE 17.—*Estimated distribution of mortgage charges and property taxes on mortgaged farms*[1]

| Geographic division | Total | | Distribution by percentage of value covered by mortgage | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1.00–20.0 | | 20.1–40.0 | | 40.1–60.0 | | 60.1–80.0 | | 80.1 and over | |
| | Mortgage charges | Taxes | Mortgage charges | Taxes | Mortgage charges | Taxes | Mortgage charges | Taxes | Mortgage charges | Taxes | Mortgage charges | Taxes |
| | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* |
| New England | 8,771 | 5,604 | 487 | 1,171 | 2,736 | 2,197 | 2,817 | 1,362 | 1,873 | 644 | 858 | 230 |
| Middle Atlantic | 28,283 | 14,040 | 1,274 | 2,626 | 6,866 | 4,717 | 9,128 | 3,763 | 6,294 | 1,853 | 4,721 | 1,081 |
| East North Central | 110,423 | 61,881 | 3,238 | 8,602 | 20,468 | 18,131 | 30,971 | 16,460 | 26,406 | 10,025 | 29,340 | 8,663 |
| West North Central | 208,025 | 92,064 | 5,705 | 12,705 | 32,990 | 24,489 | 47,748 | 21,267 | 49,774 | 15,835 | 71,808 | 17,768 |
| South Atlantic | 33,080 | 12,412 | 1,664 | 2,669 | 7,268 | 3,885 | 8,591 | 2,755 | 6,501 | 1,489 | 9,056 | 1,614 |
| East South Central | 23,801 | 9,877 | 1,208 | 2,114 | 5,383 | 3,141 | 6,771 | 2,370 | 3,989 | 998 | 6,450 | 1,254 |
| West South Central | 61,717 | 25,014 | 3,064 | 5,103 | 15,181 | 8,430 | 18,545 | 6,178 | 13,034 | 3,102 | 11,893 | 2,201 |
| Mountain | 37,838 | 17,132 | 1,853 | 3,427 | 9,756 | 6,013 | 10,979 | 4,060 | 8,496 | 2,244 | 6,754 | 1,388 |
| Pacific | 53,686 | 25,841 | 2,122 | 4,574 | 11,150 | 8,011 | 14,446 | 6,228 | 11,833 | 3,643 | 14,135 | 3,385 |
| United States | 565,624 | 263,865 | 20,615 | 42,991 | 111,798 | 79,014 | 149,996 | 64,443 | 128,200 | 39,833 | 155,015 | 37,584 |

[1] Mortgage charges include commissions.

TAXES AND INTEREST CHARGES IN RELATION TO FARMERS' INCOME

The burden of the annual fixed charges resting upon farmers depends, of course, upon the relationship of these charges to the farm income available for meeting them. As compared with the pre-war situation fixed charges in the form of interest on farm debt and taxes on farm property are roughly 2½ times as large, while the gross farm income in 1932 falls nearly 25 percent below the pre-war figures. Furthermore, these charges must be met out of the income remaining after current farm and family expenditures are deducted, and still further, they can be paid only from cash income. In table 17a the combined mortgage charges and property taxes are compared with cash income, by regions and by classes of mortgaged farms.

The annual gross income from farm production averaged roughly 6½ billion dollars for the 5 pre-war years, 1909–13. It rose to a high of nearly 17 billion dollars for 1919, dropped down to something below 9 billions in 1921, then rose again somewhat and remained at between 11 and 12 billions from 1923 to 1929. In 1930 it fell off to 9⅓ billions, in 1931 it fell well below 7 billions, and the preliminary estimate for 1932 is about 5 billions. The estimated gross income from crops and from livestock and livestock products for the years 1909–31 is shown in table 18.

Figure 2a indicates the mortgage debt for selected years of the period following 1910 and also, for comparison with this debt, returns per acre of 10 leading crops, taxes per acre on farm real estate, and farm land values. The value of principal crops per acre rose by 1919 to more than 275 percent of the pre-war level, then fell sharply to the pre-war level in 1921, rose gradually in the next 3 years, and declined even more gradually till 1929 when began the abrupt decline which by 1932 reduced the per-acre value to less than half of pre-war value. Land values, after having risen by 1920 to 170 percent of pre-war values, fell to 15 percent above that level by 1930 and to 11 percent below it by early 1932.

The farm-mortgage debt per acre of farms operated by owners was nearly three times as high in 1930 as in 1910. Farm real-estate taxes per acre in 1929 were two and a half times as high as in 1913. After 1930 they declined sharply under the pressure of the fall in farm income.

The income available for the payment of fixed charges of interest and taxes has obviously fallen below the corresponding pre-war figure much more than has the gross income. This would be true even if farm prices had maintained a constant relationship to the general price level. But the price index for agricultural products has not followed the price index for commodities that farmers need to buy. With 1909–14 prices used as a base and represented by 100, the farm-products price index stood at 49 in February 1933, while the price index of commodities bought or needed by farmers stood at 104. This means that fully twice as large a part of the farm production is needed to meet current expenses as was true before the war, and that hence a far smaller part of the gross income is available for meeting fixed overhead charges. In fact, the amount thus available from the 1931 income was a minus quantity in the case of a substantial percentage of the farmers, and the corresponding percentage of such farmers in 1932 will be still higher.

TABLE 17-A.—*Estimates of combined mortgage charges and property taxes on mortgaged farms, and of cash income on mortgaged farms* [1]

| Geographic divisions | Distribution by percentage of farm value covered by mortgage | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1-20 | | 20.1-40 | | 40.1-60 | | 60.1-80 | | 80.1 and over | | Total | |
| | Mortgage charges and taxes | Cash income | Mortgage charges and taxes | Cash income | Mortgage charges and taxes | Cash income | Mortgage charges and taxes | Cash income | Mortgage charges and taxes | Cash income | Mortgage charges and taxes | Cash income |
| | *$1,000* | *$1,000* | *$1,000* | *$1,000* | *$1,000* | *$1,000* | *$1,000* | *$1,000* | *$1,000* | *$1,000* | *$1,000* | *$1,000* |
| New England | 1,658 | 18,679 | 4,933 | 35,016 | 4,179 | 21,701 | 2,517 | 10,265 | 1,088 | 3,649 | 14,375 | 89,309 |
| Middle Atlantic | 3,900 | 40,910 | 11,583 | 73,455 | 12,891 | 58,553 | 8,147 | 28,890 | 5,802 | 16,800 | 42,323 | 218,608 |
| East North Central | 11,840 | 76,815 | 38,599 | 162,004 | 47,431 | 147,132 | 36,431 | 89,521 | 38,003 | 77,392 | 172,304 | 552,865 |
| West North Central | 18,410 | 141,500 | 57,479 | 272,789 | 69,015 | 236,945 | 65,609 | 176,302 | 89,576 | 197,975 | 300,089 | 1,025,511 |
| South Atlantic | 4,333 | 43,199 | 11,153 | 62,885 | 11,346 | 44,554 | 7,990 | 24,070 | 10,670 | 26,142 | 45,492 | 200,850 |
| East South Central | 3,322 | 26,514 | 8,524 | 39,419 | 9,141 | 29,753 | 4,987 | 12,530 | 7,704 | 15,721 | 33,678 | 123,936 |
| West South Central | 8,167 | 60,983 | 23,611 | 100,789 | 24,723 | 73,891 | 16,136 | 37,100 | 14,094 | 26,357 | 86,731 | 299,120 |
| Mountain | 5,280 | 45,352 | 15,769 | 79,617 | 15,039 | 53,716 | 10,740 | 29,730 | 8,142 | 18,342 | 54,970 | 226,758 |
| Pacific | 6,696 | 87,802 | 19,161 | 140,105 | 20,674 | 80,389 | 15,476 | 35,912 | 17,520 | 26,357 | 79,527 | 370,565 |
| United States | 63,606 | 541,754 | 190,812 | 966,079 | 214,439 | 746,634 | 168,033 | 444,320 | 192,599 | 408,735 | 829,489 | 3,107,522 |

[1] Mortgage charge data are for 1928, tax data are for 1929, and cash income is for 1930. Later data for these items are not available in form to show this distribution. In 1929 and 1930 cash income was about 85 percent of gross income, the latter including noncash items such as farm products used by farm families. Cash income no doubt has shrunken more than has gross income. To assume the same relationship as in 1930, however, would give 1932 cash income figures averaging about 55 percent of those shown here. This reduction would be slightly less than the reduction in farm prices of agricultural products. The comparisons shown here rest upon the assumption of equal average value for all classes of mortgaged farms, and of equal average taxes and cash income for all of these classes and for farms not mortgaged. Though this assumption may be quite inaccurate, it is believed to give an acceptable approximation to the present situation. Cash income figures are used because other income is not available for debt and tax payment.

TABLE 18.—*Gross income from farm production, United States, 1909–31* [1]

| Year [2] | Crops | Livestock and livestock products | Crops and livestock combined | Gross income, percentage of 1910–14 average: Crops | Livestock | Crops and livestock |
|---|---|---|---|---|---|---|
| | *Million dollars* | *Million dollars* | *Million dollars* | *Percent* | *Percent* | *Percent* |
| 1909 | 3, 314 | 2, 925 | 6, 238 | 91. 6 | 93. 0 | 92. 3 |
| 1910 | 3, 517 | 3, 126 | 6, 643 | 97. 2 | 99. 5 | 98. 3 |
| 1911 | 3, 536 | 2, 836 | 6, 372 | 97. 8 | 90. 2 | 94. 3 |
| 1912 | 3, 688 | 3, 096 | 6, 784 | 101. 9 | 98. 5 | 100. 3 |
| 1913 | 3, 647 | 3, 328 | 6, 975 | 100. 8 | 105. 9 | 103. 2 |
| 1914 | 3, 700 | 3, 328 | 7, 028 | 102. 3 | 105. 9 | 104. 0 |
| 1915 | 3, 985 | 3, 410 | 7, 395 | 110. 2 | 108. 5 | 109. 4 |
| 1916 | 4, 968 | 3, 947 | 8, 914 | 137. 3 | 125. 6 | 131. 9 |
| 1917 | 7, 431 | 5, 401 | 12, 832 | 205. 4 | 171. 8 | 189. 8 |
| 1918 | 8, 119 | 6, 982 | 15, 101 | 224. 5 | 222. 1 | 223. 4 |
| 1919 | 9, 431 | 7, 503 | 16, 935 | 260. 7 | 238. 7 | 250. 5 |
| 1920 | 6, 862 | 6, 704 | 13, 566 | 189. 7 | 213. 3 | 200. 7 |
| 1921 | 4, 488 | 4, 440 | 8, 927 | 124. 1 | 141. 3 | 132. 1 |
| 1922 | 5, 350 | 4, 594 | 9, 944 | 147. 9 | 146. 2 | 147. 1 |
| 1923 | 5, 969 | 5, 072 | 11, 041 | 165. 0 | 161. 4 | 163. 3 |
| 1924 | 6, 170 | 5, 167 | 11, 337 | 170. 6 | 164. 4 | 167. 7 |
| 1925 | 6, 147 | 5, 820 | 11, 968 | 169. 9 | 185. 2 | 177. 0 |
| 1926 | 5, 468 | 6, 012 | 11, 480 | 151. 2 | 191. 3 | 169. 8 |
| 1927 | 5, 817 | 5, 799 | 11, 616 | 160. 8 | 184. 5 | 171. 8 |
| 1928 | 5, 675 | 6, 066 | 11, 741 | 156. 9 | 193. 0 | 173. 7 |
| 1929 | 5, 609 | 6, 302 | 11, 911 | 155. 1 | 200. 5 | 176. 2 |
| 1930 | 3, 971 | 5, 376 | 9, 347 | 109. 8 | 171. 0 | 138. 3 |
| 1931 | 2, 931 | 3, 989 | 6, 920 | 81. 0 | 126. 9 | 102. 4 |

[1] Estimates for 1909–23 comparable with data in table 3, p. 398, Crops and Markets, September 1931.
[2] Crop year for crops, calendar year for livestock and livestock products.

This means, of course, that many farmers even among those who have no debt and therefore no interest to pay, are nevertheless unable to meet their taxes from this year's income, and can pay them, if at all, only by borrowing money for the purpose, or by drawing on other resources. Cases of this kind occur, of course, even in years when farm prices are favorable, by reason of crop failures or other local disasters, but this year it will be true of many farmers even without any special disasters to crops and livestock.

The above conclusion is based in part on the results of an annual survey covering 6,000 to 15,000 farms, and which aims to arrive at the farm income available for living expenses, interest payments, and other purposes, after deducting current farm expenses and taxes. The results of this survey for the years 1924–31 may be found in the Bureau's monthly "Crops and Markets" for November 1932, pages 442–443. Such results for 1932 will not be available until about the middle of 1933. The figures for 1931 indicate that 36 per cent of the farmers reporting had losses for the year, without allowance for interest or debt payments. About 40 percent of those reporting had net incomes, as here calculated, amounting to less than $500. Most of the remaining 24 percent had net incomes ranging from $500 to $1,000, with scattering ones in higher brackets. Just what percentage of these reporting farmers would show losses for 1931 before allowance for taxes, was not calculated.

The farms included in this survey average materially larger than the average for all farms. The net incomes, as well as the net losses of those reporting, therefore, show wider ranges than would the corresponding figures for all farmers in the country.

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## FARM FORECLOSURES AND TAX SALES

As a result of the drop in farm income and in land values following 1920 and more particularly during the last three years, forced sales of farms and other farm property have been numerous. Tables 19 and 19(a) and figure 3 show, by geographic divisions, the average number of farms per thousand of all farms, estimated to have changed hands

RETURNS PER ACRE OF TEN LEADING CROPS AND TAXES, LAND VALUES AND MORTGAGE DEBT PER ACRE OF FARM REAL ESTATE

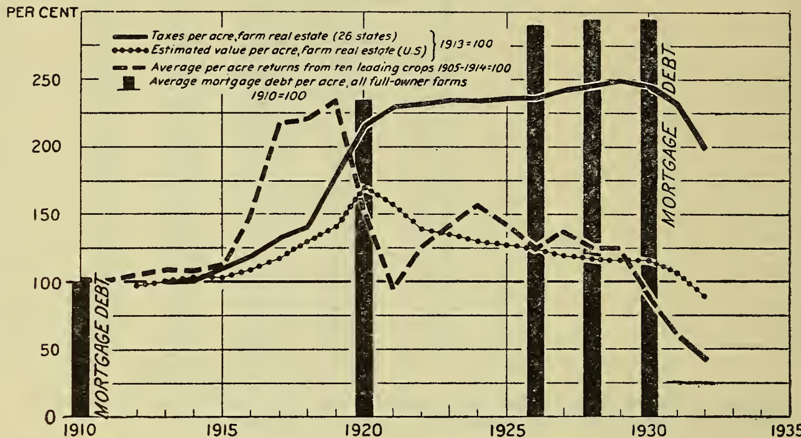


FIGURE 3.

voluntarily, and as a result of forced transactions for the years ending March 15, 1926–32. The data on farms changing hands as a result of mortgage foreclosure, bankruptcy, and related defaults include not only farms actually sold at foreclosure, but also cases of deeding back and sales to avoid foreclosure. The tendency toward fewer forced transactions for 1929 and 1930 in several areas is in contrast to the striking increases since then. No data later than March 15, 1932, are available from these sources.

TABLE 19.—*Number of farms per 1,000 changing ownership by various methods, by geographic divisions, 12 months ended March 15, 1926–32*

| Type of sale and year | New England | Middle Atlantic | East North Central | West North Central | South Atlantic | East South Central | West South Central | Mountain | Pacific | United States |
|---|---|---|---|---|---|---|---|---|---|---|
| Voluntary sales: | | | | | | | | | | |
| 1926 | 34.0 | 35.4 | 25.8 | 23.0 | 28.0 | 33.5 | 34.7 | 32.0 | 35.6 | 29.6 |
| 1927 | 32.4 | 37.0 | 25.8 | 24.3 | 24.2 | 29.3 | 31.1 | 33.7 | 36.3 | 28.3 |
| 1928 | 34.9 | 33.7 | 24.0 | 23.9 | 20.0 | 27.5 | 27.9 | 34.8 | 34.3 | 26.3 |
| 1929 | 30.4 | 28.2 | 21.0 | 22.4 | 18.3 | 23.4 | 25.5 | 35.6 | 28.3 | 23.5 |
| 1930 | 30.7 | 28.3 | 20.8 | 22.9 | 18.2 | 23.9 | 24.2 | 38.7 | 30.1 | 23.7 |
| 1931 | 30.7 | 24.5 | 18.6 | 18.9 | 14.5 | 19.4 | 16.7 | 24.8 | 22.1 | 19.0 |
| 1932 | 24.8 | 20.4 | 16.8 | 14.2 | 12.3 | 17.2 | 15.4 | 17.6 | 22.3 | 16.2 |
| Forced sales and related defaults (delinquent taxes): | | | | | | | | | | |
| 1926 | 4.5 | 3.0 | 3.2 | 4.3 | 5.5 | 4.0 | 3.4 | 9.8 | 3.9 | 4.2 |
| 1927 | 3.8 | 3.0 | 3.8 | 5.3 | 6.9 | 5.8 | 3.8 | 9.5 | 4.5 | 5.1 |
| 1928 | 3.0 | 3.4 | 4.2 | 5.1 | 6.9 | 5.4 | 4.1 | 12.0 | 4.2 | 5.2 |
| 1929 | 3.6 | 3.6 | 3.3 | 3.6 | 9.0 | 4.0 | 3.2 | 10.8 | 3.9 | 4.7 |
| 1930 | 3.9 | 3.5 | 4.8 | 4.2 | 8.4 | 4.9 | 3.4 | 11.2 | 3.0 | 5.1 |
| 1931 | 3.4 | 4.6 | 4.7 | 5.5 | 12.8 | 10.0 | 6.1 | 13.8 | 5.4 | 7.4 |
| 1932 | 5.2 | 5.6 | 6.5 | 8.7 | 21.0 | 26.0 | 13.2 | 16.5 | 10.8 | 13.3 |

TABLE 19.—*Number of farms per 1,000 changing ownership by various methods, by geographic divisions, 12 months ended March 15, 1926–32*—Continued

| Type of sale and year | New England | Middle Atlantic | East North Central | West North Central | South Atlantic | East South Central | West South Central | Mountain | Pacific | United States |
|---|---|---|---|---|---|---|---|---|---|---|
| Foreclosure of mortgage, bankruptcy, etc.[1]: | | | | | | | | | | |
| 1926 | 9.3 | 8.8 | 15.7 | 26.5 | 14.0 | 12.4 | 15.3 | 40.4 | 16.7 | 17.4 |
| 1927 | 8.6 | 8.8 | 16.6 | 26.7 | 14.1 | 15.9 | 16.1 | 35.8 | 15.6 | 18.2 |
| 1928 | 7.7 | 8.4 | 16.5 | 27.3 | 16.4 | 14.6 | 14.4 | 27.4 | 15.7 | 17.6 |
| 1929 | 7.3 | 8.4 | 15.8 | 22.3 | 14.0 | 11.2 | 12.0 | 18.3 | 13.6 | 14.8 |
| 1930 | 7.3 | 9.6 | 17.5 | 23.3 | 14.8 | 11.2 | 13.4 | 18.2 | 12.2 | 15.7 |
| 1931 | 6.3 | 9.2 | 19.3 | 25.8 | 19.4 | 15.9 | 16.3 | 22.6 | 19.6 | 18.7 |
| 1932 | 10.3 | 12.4 | 27.8 | 43.8 | 26.1 | 24.6 | 27.0 | 27.0 | 26.8 | 28.4 |
| Total forced sales: | | | | | | | | | | |
| 1926 | 13.8 | 11.8 | 18.9 | 30.8 | 19.5 | 16.4 | 18.7 | 50.2 | 20.6 | 21.6 |
| 1927 | 12.4 | 11.8 | 20.4 | 32.0 | 21.0 | 21.7 | 19.9 | 45.3 | 20.1 | 23.3 |
| 1928 | 10.7 | 11.8 | 20.7 | 32.4 | 23.3 | 20.0 | 18.5 | 39.4 | 19.9 | 22.8 |
| 1929 | 10.9 | 12.0 | 19.1 | 25.9 | 23.0 | 15.2 | 15.2 | 29.1 | 17.5 | 19.5 |
| 1930 | 11.2 | 13.1 | 22.3 | 27.5 | 23.2 | 16.1 | 16.8 | 29.4 | 15.2 | 20.8 |
| 1931 | 9.7 | 13.8 | 24.0 | 31.3 | 32.2 | 25.9 | 22.4 | 36.4 | 25.0 | 26.1 |
| 1932 | 15.5 | 18.0 | 34.3 | 52.5 | 47.1 | 50.6 | 40.2 | 43.5 | 37.6 | 41.7 |

[1] Including loss of title by default of contract, sales to avoid foreclosure and surrender of title or other transfers to avoid foreclosure.

TABLE 19(A).—*Total number of farms per 1,000 transferred by forced sales for the years ending March 15, 1926–32, inclusive*

| Geographic division | Forced sales (1926–32) | | |
|---|---|---|---|
| | For delinquent taxes | For foreclosure of mortgage, bankruptcy, etc. | All forced sales |
| New England | 27.4 | 56.8 | 84.2 |
| Middle Atlantic | 26.7 | 65.6 | 92.3 |
| East North Central | 30.5 | 129.2 | 159.7 |
| West North Central | 36.7 | 195.7 | 232.4 |
| South Atlantic | 70.5 | 118.8 | 189.3 |
| East South Central | 60.1 | 105.8 | 165.9 |
| West South Central | 37.2 | 114.5 | 151.7 |
| Mountain | 83.6 | 189.7 | 273.3 |
| Pacific | 35.7 | 120.2 | 155.9 |
| United States | 45.0 | 130.8 | 175.8 |

Based on table 19.

The foreclosed loans of the Federal and joint-stock land banks, represented by real estate owned and by sheriff certificates, as of December 1931, and December 1932, were as follows:

| | December 1931 | December 1932 |
|---|---|---|
| Federal land banks: | | |
| Real estate owned | $29,414,000 | $44,754,000 |
| Sheriff certificates, etc | 13,734,000 | 25,492,000 |
| Joint-stock land banks:[1] | | |
| Real estate owned | 30,898,000 | 50,114,000 |
| Sheriff certificates, etc | 11,766,000 | 22,939,000 |
| Total of Federal and joint-stock land banks | 85,812,000 | 143,299,000 |

[1] Includes banks in receivership.

The reported investment in "distress" land holdings of 14 life-insurance companies holding approximately 61 percent of the estimated farm mortgage loans of all life-insurance companies, increased from $78,294,000 at the close of 1929 to $223,851,000 by December 31, 1931.

The proportion of farmers who were unable to meet their tax payments on time increased rapidly from 1929 to 1932. In 37 widely scattered farming counties for which figures are available, the percentage of property taxes unpaid at the date when penalty was applied, was 12 percent in 1929, 15 percent in 1930, and 23 percent in 1931. Many individual counties run very much higher.

Although few concrete data are available for 1932, nearly all evidence points to another significant increase in delinquency between

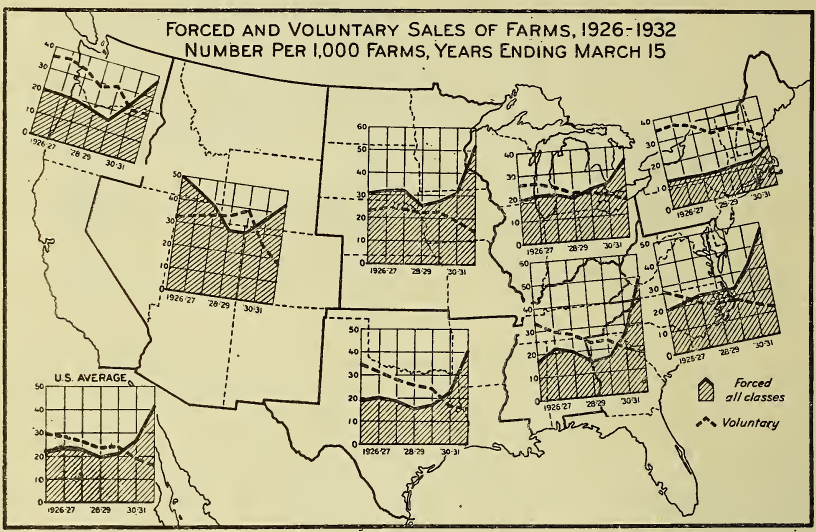


FIGURE 4.

1931 and 1932. Reports from State tax commissions, except in New England, rather regularly indicate this situation. In New England there is a special situation in several respects. Dairying, one of the leading farm enterprises, has been less severely depressed than most other farm enterprises. Members of farm families earn a considerable amount of income in other than farm enterprises, and also in this region there appears to have developed an unusually strong sentiment urging the prompt payment of taxes even when marked personal sacrifices are involved. Although farm tax delinquencies are increasing in New England, they are still relatively few when compared with those occurring elsewhere.

In Minnesota the percentage of property taxes not paid on time increased between 1931 and 1932 in all but three counties. This increase includes counties with a half, or more, of their taxes delinquent, and others with less than 5 percent delinquency. The actual percentage delinquent varies greatly with the value of the land for farming purposes. Though the Minnesota reports make these facts more clearly evident, there is reason to believe that the

situation in that State is not unique, but largely representative of the agricultural States.

Temporary delinquency such as considered above does not entail immediate dispossession of the farmer, but sets up a debt, usually at a very high rate of interest.

## CREDIT AGENCIES IN THEIR RELATION TO THE DEBT BURDEN

*Commercial banks.*—The chief agency supplying short-term credit for the farmer is the country bank. The unfavorable economic conditions which these institutions have faced since 1920 have resulted in a tremendous reduction in their numbers and have curtailed the lending capacity of operating banks. As a result, many agricultural areas are without credit facilities. In others, existing institutions are not in a position to meet the legitimate credit requirements of their communities.

Since 1920 there have been approximately 11,000 bank failures, the larger part of which were located in agricultural areas. The following table summarizes the bank-failure situation for each State since 1920:

TABLE 20.—*Bank suspensions by States January 1, 1921–January 31, 1933*

| State | Total active banks June 30, 1920 | Number of suspensions | Suspensions as percent of active banks | Deposits of suspended banks |
|---|---|---|---|---|
| New England | 1, 127 | 73 | 6. 5 | $254, 568, 000 |
| Maine | 161 | 5 | 3. 1 | 5, 407, 000 |
| New Hampshire | 125 | 4 | 3. 2 | 13, 605, 000 |
| Vermont | 108 | 2 | 1. 9 | 1, 768, 000 |
| Massachusetts | 465 | 33 | 7. 1 | 150, 861, 000 |
| Rhode Island | 48 | 3 | 6. 2 | 2, 212, 000 |
| Connecticut | 220 | 26 | 11. 8 | 80, 715, 000 |
| Middle Atlantic | 2, 990 | 395 | 13. 2 | 847, 188, 000 |
| New York | 1, 056 | 101 | 9. 6 | 324, 690, 000 |
| New Jersey | 388 | 54 | 13. 9 | 109, 546, 000 |
| Pennsylvania | 1, 546 | 240 | 15. 5 | 412, 952, 000 |
| East North Central | 5, 488 | 1, 858 | 33. 9 | 1, 180, 988, 000 |
| Ohio | 1, 145 | 226 | 19. 7 | 322, 250, 000 |
| Indiana | 1, 057 | 380 | 36. 0 | 178, 741, 000 |
| Illinois | 1, 610 | 728 | 45. 2 | 436, 226, 000 |
| Michigan | 700 | 298 | 42. 6 | 165, 856, 000 |
| Wisconsin | 976 | 226 | 23. 2 | 77, 915, 000 |
| West North Central | 9, 067 | 4, 310 | 47. 5 | 1, 111, 533, 000 |
| Minnesota | 1, 515 | 607 | 40. 1 | 161, 013, 000 |
| Iowa | 1, 763 | 993 | 56. 3 | 374, 378, 000 |
| Missouri | 1, 652 | 649 | 39. 3 | 143, 224, 000 |
| North Dakota | 898 | 569 | 63. 4 | 84, 013, 000 |
| South Dakota | 694 | 546 | 78. 7 | 142, 134, 000 |
| Nebraska | 1, 196 | 562 | 47. 0 | 124, 767, 000 |
| Kansas | 1, 349 | 384 | 28. 5 | 82, 004, 000 |
| South Atlantic | 3, 289 | 1, 557 | 47. 3 | 672, 033, 000 |
| Delaware | 47 | 3 | 6. 4 | 1, 460, 000 |
| Maryland | 282 | 38 | 13. 5 | 39, 184, 000 |
| District of Columbia | 45 | 4 | 8. 9 | 3, 497, 000 |
| Virginia | 488 | 113 | 23. 2 | 31, 446, 000 |
| West Virginia | 340 | 109 | 32. 1 | 63, 662, 000 |
| North Carolina | 623 | 314 | 50. 4 | 131, 046, 000 |
| South Carolina | 461 | 307 | 66. 6 | 107, 362, 000 |
| Georgia | 738 | 412 | 55. 8 | 80, 785, 000 |
| Florida | 265 | 257 | 97. 0 | 213, 591, 000 |
| East South Central | 1, 836 | 583 | 31. 8 | 276, 698, 000 |
| Kentucky | 584 | 137 | 23. 5 | 102, 312, 000 |
| Tennessee | 546 | 165 | 30. 2 | 73, 761, 000 |
| Alabama | 352 | 122 | 34. 7 | 32, 838, 000 |
| Mississippi | 354 | 159 | 44. 9 | 67, 787, 000 |
| West South Central | 3, 295 | 1, 171 | 35. 5 | 351, 885, 000 |
| Arkansas | 487 | 301 | 61. 8 | 88, 271, 000 |
| Louisiana | 267 | 65 | 24. 3 | 23, 329, 000 |
| Oklahoma | 959 | 347 | 36. 2 | 89, 587, 000 |
| Texas | 1, 582 | 458 | 29. 0 | 150, 698, 000 |

TABLE 20.—*Bank suspensions by States January 1, 1921–January 31, 1933*—Con.

| State | Total active banks June 30, 1920 | Number of suspensions | Suspensions as percent of active banks | Deposits of suspended banks |
|---|---|---|---|---|
| Mountain | 1,592 | 727 | 45.7 | $243,245,000 |
| Montana | 431 | 233 | 54.1 | 58,655,000 |
| Idaho | 222 | 111 | 50.0 | 36,200,000 |
| Wyoming | 160 | 65 | 40.6 | 18,204,000 |
| Colorado | 403 | 145 | 36.0 | 37,219,000 |
| New Mexico | 123 | 64 | 52.0 | 21,401,000 |
| Arizona | 87 | 44 | 50.6 | 22,754,000 |
| Utah | 133 | 44 | 33.1 | 24,886,000 |
| Nevada | 33 | 21 | 63.6 | 23,926,000 |
| Pacific | 1,394 | 301 | 21.6 | 212,905,000 |
| Washington | 394 | 112 | 28.4 | 75,793,000 |
| Oregon | 277 | 90 | 32.5 | 38,013,000 |
| California | 723 | 99 | 13.7 | 99,099,000 |
| United States | 30,078 | 10,975 | 36.5 | 5,151,043,000 |

With the disconcerting drop in farm commodity prices, the amount of funds flowing into agricultural communities has been correspondingly reduced. Payments that must be made outside the community for interest, taxes, and purchase of necessary supplies have not shown a corresponding reduction. As a consequence, deposits in country banks have greatly declined. For the period from October 1929 to January 1933, total time and net demand deposits of member banks of the Federal Reserve System, located in places of less than 15,000 population, in 20 of the leading agricultural States the decline was 38 percent, in 8 cotton-growing States the decline was 51 percent, and in 7 corn-belt States the decline was 41 percent. The decline in

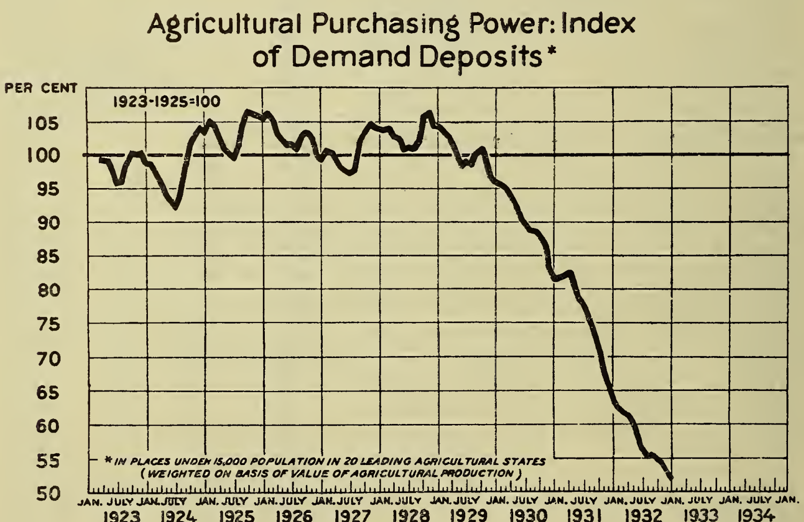


FIGURE 5.

net demand deposits, which is the type of deposit most responsive to changes in farm income, is shown for each of these three groups of States in figures 4, 5, and 6.

An additional factor which has tended to curtail the volume of credit available to farmers through country banks has been the latter's change in investment policy. As a result of the lack of confidence on

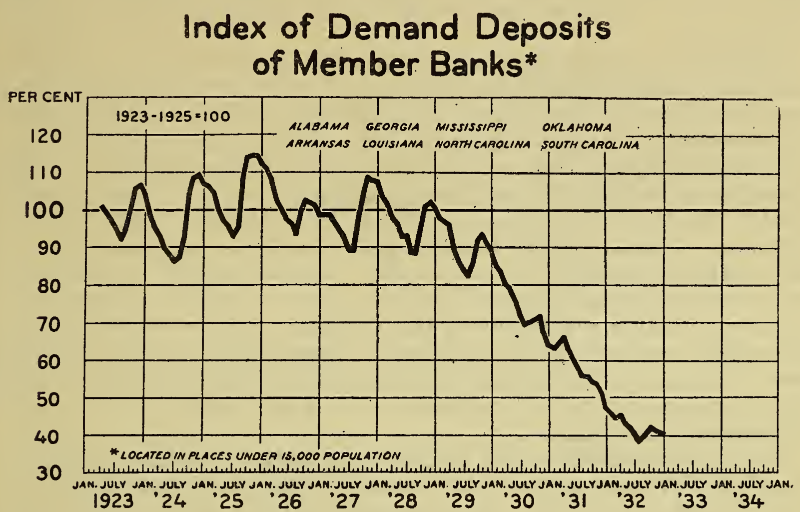


FIGURE 6.

the part of depositors, created by the numerous bank failures, banks have felt the necessity of keeping an increasing proportion of their assets invested in readily-liquidated securities purchased outside of the community.

The general effect of the abnormal conditions affecting country banks has been to decrease substantially the volume of funds available

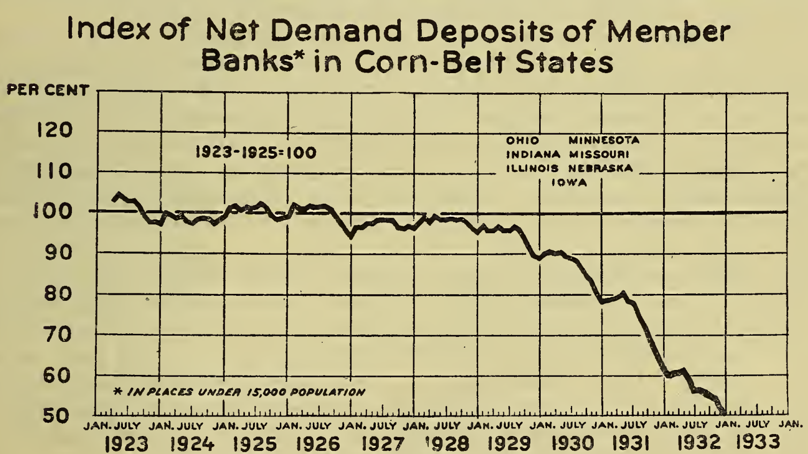


FIGURE 7.

for new loans and to exert pressure for the liquidation of outstanding advances. The liquidation of outstanding loans, in the face of a sharply reduced farm income, particularly when funds for new loans

cannot be obtained, has led in many cases to a reduction in the farmers' operating capital. Where credit has not been available for livestock feeding, the ability of the farmer to utilize efficiently his labor time and surplus feed supplies has been impaired. Consequently his ability to meet his debt obligations has been adversely influenced.

The lack of confidence in the banking situation created through the numerous bank failures, in addition to reducing the proportion of assets invested in local loans, has also resulted in other adverse developments. In many areas country banks are operating under "waiver agreements" in order to avoid going into liquidation. Where banks are operating under this plan, their investment policy must be guided by the requirements of their depositors for the withdrawal of funds. Consequently, such banks are not in a position to provide any material amount of new credit. Under normal conditions, in order to provide additional credit for their customers, country banks in many areas have followed the practice of borrowing seasonally from their correspondent banks in the larger cities or from the Federal reserve banks. The tendency of the public to interpret large outside borrowings as a sign of a weakness in the bank's condition has tended to diminish this practice.

*Federal land banks.*—The Federal land banks, which hold approximately 12 percent of the total farm-mortgage debt, have been faced with difficult conditions as the result of the sharp drop in farm income and the unfavorable market for long-term securities. The volume of new loans granted by these institutions has fallen sharply. The average annual volume of new loans closed in the 3-year period ending with 1927 was approximately $133,000,000. In 1930 the volume had dropped to $48,000,000, in 1931 to $42,000,000, and in 1932 to $28,000,000. This decrease in the volume of new loans was due chiefly to two factors: First, the drop in the number of applications which would meet their requirements; and, secondly, the difficulty of obtaining funds through the issuing of long-term bonds.

The inability to obtain new funds was the result of the adverse bond market which did not permit the issuance of bonds at a rate which would enable the banks to reloan at a rate high enough to include a sufficient margin for operating expenses. In 1927 the average yield on Federal land-bank bonds was 4.08 percent. In 1931 the average yield had risen to 5.34 percent, and for a time was slightly higher than 6 percent. Inasmuch as the maximum interest rate which the land banks are permitted to charge the borrower is 6 percent, such rates did not permit borrowing funds for making loans at a rate which would include the 1 percent spread which they are permitted. As a consequence the volume of new issues has been limited during the last three years almost entirely to short-term maturities. In November 1930 an issue of $20,000,000 of two to three year notes was offered. Up to December 31, 1932, loans totaling $18,500,000 had been obtained from the Reconstruction Finance Corporation. The amount of Federal land-bank bonds retired in 1930 was $40,114,000, in 1931 $16,853,000, and in 1932 $42,649,000.

The unfavorable farm-income situation has resulted in a material increase in the volume of delinquent payments on outstanding loans and a substantial increase in "distress" assets. At the end of 1928 delinquent installments, real estate owned, and land in the process of

foreclosure totaled $25,739,000. At the end of 1930 this had increased to $35,951,000. The increase in these "distress" holdings since that time has been rapid, total "distress" assets advancing to $60,003,000 at the end of 1931 and to $94,876,000 on December 31, 1932. At the latter date such "distress" items represented 8.3 percent of the outstanding bonds.

With a rapid increase in the proportion of the assets represented by these "distress" items, and because of their inability to obtain new funds through long-term financing, the position of the land banks in meeting their annual charges on outstanding bonds became increasingly difficult. The amount of cash reserves and receipts from collection was so limited that they could not grant numerous extension of payments to borrowers without jeopardizing their ability to meet interest payments on outstanding bonds. In recognition of this situation, Congress provided additional funds early in 1932 to increase the capital stock of these institutions. The total appropriation was $125,000,000, of which amount $25,000,000 was allocated for the definite purpose of providing extensions to meritorious borrowers. As a consequence of this action the financial position of the land banks was materially improved. At the end of 1931, holdings of readily liquidated assets (United States and other securities and cash on hand in banks) which had at the end of 1928 averaged 3.8 percent of outstanding farm-loan bonds, declined to 2.1 percent. With the new capital funds, however, the proportion of such liquid assets to outstanding bonds rose to 10 percent on December 31, 1932.

The general effect of the conditions affecting the Federal land banks upon the farmers' debt burden may be summarized as follows: The inability to obtain new funds and the rising volume of "distress" assets led to a rigorous collection policy until additional financial assistance was given by the Federal Government. The strengthening of the capital structure of these institutions through the Federal appropriations has also been a factor in increasing the marketability of Federal land bank bonds. This is reflected in the yields. Average yields on these bonds declined from 6.07 percent in December 1931 to 5.30 percent in January 1933. The increasing volume of delinquent and foreclosed loans has placed a large percentage of the national farm loan associations, through which applications are normally submitted to the Federal land banks, in a position that prevents them from handling new loan applications. Recent legislation has made it possible for the Federal land bank to get around this difficulty by making loans direct to farmers without going through the local associations.

*Joint-stock land banks.*—The joint-stock land banks, which hold approximately 6 percent of the farm mortgage debt, have been faced with conditions which have made it impossible for most of them to grant new loans, and the operations of many of them represent practically a policy of liquidation.

The average annual volume of new loans made in the 3-year period ending 1927 was approximately $112,000,000, in 1930 and in 1931 the annual volume had been reduced to only slightly more than $5,000,000, and in 1932 to $2,181,000. The new loans in the last two years are chiefly represented by banks recently organized or by banks which have close financial affiliations enabling them to obtain funds without a public offering of new securities.

The unfavorable conditions faced by the joint-stock land banks have been reflected in a reduction in the number of operating institutions. At the end of 1927 there were 50 banks in operation. Since that time three banks have gone into the hands of receivers, having outstanding bonds in the amount of $89,754,000. There have been 3 mergers and 2 new banks organized, leaving 46 banks in operation. The amount of bonds retired by these banks in 1930 was $30,203,000; in 1931, $33,209,000; and in 1932, $33,770,000.

As a result of the low level of farm income the volume of foreclosures and delinquent loans has increased rapidly. The holdings of "distress" assets (delinquent installments, real estate owned, and loans in the process of foreclosure) increased from $17,884,000 at the end of 1928 to $25,878,000 at the end of 1930. At the end of 1931 these items had increased to $46,305,000 and on December 31, 1932, they totaled $57,178,000. At the latter date, such "distress" items represented 13.4 percent of the outstanding bonds.

As in the case of the Federal land banks, the rapid increase in the volume of "distress" assets and the inability to obtain new funds has made it difficult for the joint-stock land banks to meet their annual charges on outstanding bonds. Some financial assistance, however, in this respect has been obtained through the Reconstruction Finance Corporation. At the end of December loans had been authorized by the Reconstruction Finance Corporation to 14 joint-stock land banks. Outstanding loans to joint-stock land banks from this source totaled on that date $2,465,301.

The general effect of the situation faced by the joint-stock land banks has been to increase the pressure on collections in order to obtain funds with which to meet interest payments on outstanding bonds. There has been considerable comment to the effect that the substantital decline in joint-stock land bank bonds has led some of these banks to foreclose on loans where they can resell the land and obtain sufficient funds to buy back their outstanding bonds at a discount. Loss incurred on the foreclosed loan would be offset in many cases by the discount on depreciated bonds repurchased by the bank. The present situation, with joint-stock land bank bonds selling at substantial discounts, practically precludes any new financing. The necessity of providing earnings to offset losses therefore provides a strong incentive to repurchase bonds. The result of this policy, however, results in a decrease in the volume of new loans and amounts virtually to a policy of liquidation. In certain cases the Federal land banks also have bought back limited amounts of their bonds at a discount in order to improve their financial position.

*Life-insurance companies.*—Life-insurance companies, which as a group are the largest source of farm-mortgage credit, have materially curtailed the volume of their new mortgage loans during the past year. The need for funds in meeting the requirements of policy-holders and the unfavorable farm situation, which has resulted in a high ratio of delinquencies has caused a large number of companies to withdraw from the lending field. The volume of new investments in farm-mortgage loans reported by 25 life-insurance companies which averaged $3,130,000 per week the last half of 1928, dropped to $2,827,000 in 1930, and to $2,011,000 in 1931, and to $904,000 in 1932.

The ratio of farm-mortgage loans to total assets of 52 legal reserve life-insurance companies has decreased from 13.3 percent in 1928 to 8.8 percent in 1932. The relative proportion of farm-mortgage loans to total mortgage loans has also declined in the same period from 31.4 percent to 24.2 percent. The decrease in the relative proportion of farm-mortgage loans is mainly explained by three factors: (1) the withdrawal from the farm-mortgage field on the part of some companies, (2) the reduction in the volume of outstanding farm-mortgage loans, resulting from foreclosure, and (3) the very rapid growth in policy loans and premium notes. The requirements of policyholders may be indicated by the growth in policy loans and premium notes which increased from $2,140,000,000 at the end of 1929, to $3,500,000,000 at the end of 1932. During the same period the total admitted assets of this group of insurance companies increased $2,939,000,000. The growth in policy loans, therefore, absorbed 46 percent of this increase.

The Reconstruction Finance Corporation has authority to make loans to insurance companies, and as of January 31, 1933, there were total advances outstanding of $62,940,927. The big bulk of these advances, however, were to the smaller insurance companies, which do not hold a very large proportion of the total farm-mortgage investments of insurance companies.

In summarizing the relationship of the life-insurance companies to the farm debt problem, it can be said that the supply of new funds from this source has been very greatly curtailed as the result of recent difficulties. Several companies have withdrawn entirely from the lending field while others have withdrawn temporarily because of the need for utilizing funds for other purposes, chiefly the demands of policyholders. The high ratio of delinquencies has also been a factor in discouraging additional lending. At the end of 1932 it is reported that of the total investments in farm mortgages and farm real estate held by 14 large life-insurance companies, 83.3 percent had the status of current loans, 9.9 percent represented assets in the form of farm real estate, 5.4 percent in pending foreclosures, and 1.4 percent in real estate sold on contract. The total investments of these companies in farm mortgage loans and acquired real estate was $1,325,000,000.

*Mortgage loan companies and other groups of mortgage holders.*— Mortgage loan companies which negotiate loans for farmers and sell such loans to private investors, institutions, and trusts, have been faced by practically the same conditions as other farm mortgage lending agencies. A low level of farm income has resulted in a high ratio of delinquent and foreclosed loans, making investors unwilling to place additional funds on farm mortgage security. As a result of this factor and the unfavorable investment market situation it has been extremely difficult to place new loans. Consequently, the volume of new credit from this source has been greatly curtailed.

The volume of new loans made by mortgage loan companies reporting to the Bureau of Agricultural Economics was $13,678,000 in 1929. In 1930 it had declined to $7,634,000, and in 1931 to $6,390,000. The adverse conditions faced by these companies has likewise resulted in the failure of a number of these organizations. Other sources of farm mortgage credit, such as savings banks, trust funds, and private

investors have been unwilling to invest in farm mortgage loans except in a very limited way.

*The Federal intermediate credit banks.*—Production credit from the Federal intermediate credit banks is made available through local rediscounting agencies, chiefly agricultural credit corporations, livestock loan companies, and a few commercial banks. Since the organization of the system in 1923, about 800 agricultural credit corporations and livestock loan companies have obtained credit from these banks, but on November 30, 1932, only about half of these 800, including some in the process of liquidation, were using the rediscount facilities.

In the earlier years, the rediscounting agencies were permitted to charge borrowers a rate which could not exceed by more than 1½ percent the discount rate charged by the Federal intermediate credit banks. For many corporations this spread was inadequate to cover operating costs and losses, and resulted in the liquidation of many after a short period of operation. The difficulty of obtaining a sufficient volume of business and of obtaining competent management has also contributed to the failure of a considerable number of rediscounting agencies, particularly those organized with a small amount of capital. The attempt to finance certain types of crop production loans where the risk element was high also contributed to these difficulties. In 1931, the Federal Farm Loan Board changed its regulations to permit a 3 percent spread to the discounting agencies. Since that time, however, loss ratios have been high and the increased income resulting from the 3 percent spread, which might otherwise have attracted funds to the capitalization of these agencies, has been required frequently, to absorb losses.

During the past year the volume of outstanding production credit supplied by the Federal intermediate credit banks has averaged between 70 and 80 millions of dollars. On December 31, 1932, loans and discounts for financing institutions, chiefly for production purposes, totaled $82,517,754, which was approximately the same amount as was outstanding a year ago. The distribution of outstanding loans and discounts to financing institutions on June 30, 1932, was as follows:

| | |
|---|---|
| Agricultural credit corporations | $34, 968, 338. 36 |
| National banks | 15, 264. 97 |
| State banks | 517, 075. 93 |
| Livestock loan companies | 44, 956, 686. 87 |
| Savings banks and trust companies | 5, 000. 00 |
| Total | 80, 462, 366. 13 |

In addition to providing credit for farmers through financing agencies, the Federal intermediate credit banks make direct commodity loans to farmers' cooperative associations. The amount of such loans outstanding on December 31, 1932, was $9,865,615, compared with $43,321,984 a year earlier. The sharp decline in commodity loans is explained by the reduction in the volume of loans to the Federal Farm Board stabilization corporations.

Funds for making loans are obtained by the Federal intermediate credit banks through the sale of their debentures. Their loan and discount rate to borrowing institutions cannot exceed by more than 1

percent the rate borne by the last issue of debentures. Thus changes in the rates on debentures usually cause corresponding changes in the rates charged borrowers. Most of the debentures issued during 1931 bore a rate of 3 percent. The acute financial situation which developed in the closing months of that year, however, made it difficult to sell debentures to banks as the latter, in their efforts to maintain their assets in liquid form, discriminated against this type of short-term investment. By the early part of 1932 it was necessary to pay a 5 percent rate of interest in marketing these debentures. The action of the Reconstruction Finance Corporation in underwriting debentures issued in the early part of the year made it possible to obtain the required amount of funds. Due partly to the provisions of the Norbeck-Steagall Act, and partly to an easing of central money-market rates, debentures have been readily marketable at the lowest rates in the history of the system, recent issues having been sold with a 2 percent rate.

Recent legislation affecting the Federal intermediate credit banks includes the amendments adopted in June 1930 and the Norbeck-Steagall Act. The former struck out the provision prohibiting loans of less than 6 months duration and gave authority to the banks to make direct secured loans to financial institutions as a substitute method for the usual rediscounting of paper. The Norbeck-Steagall Act contains a number of provisions to improve the market for debentures. Outstanding among these is the grant of authority to the Federal reserve banks to make 15-day loans to member banks on the security of Federal intermediate credit bank debentures. This provision enables member banks to realize funds immediately upon these debentures by using them as collateral for their borrowings at the Federal reserve banks. Their desirability as a liquid short-term investment has thereby been greatly enhanced and has been reflected in the low yields now borne by the debentures. Other provisions of this act give the Federal Farm Loan Board powers to protect the credit of any one of the banks by assessments on the others. In addition, more liberal provisions are made regarding the retention of net earnings in the surplus accounts rather than paying them to the Government as franchise taxes. A further provision makes it possible for the banks to finance commodity paper for cooperatives by accepting drafts or bills of exchange.

Aid in the capitalization of credit corporations and livestock loan companies has been extended by two Federal agencies, the Federal Farm Board and the Department of Agriculture. The former, under authority of the Agricultural Marketing Act for "the effective merchandizing of agricultural commodities and food products thereof", has made loans of a little over $4,000,000 through its affiliated organizations for the purpose of capitalizing discounting agencies affiliated with cooperative marketing organizations. Of this amount, approximately one half was used in capitalizing loan agencies functioning under the National Livestock Marketing Association. These loan agencies had outstanding livestock loans of approximately $10,000,000 on June 30, 1932.

Under authority conferred in the act of February 14, 1931, the Secretary of Agriculture made loans to individuals for the purpose of assisting in the purchase of stock in agricultural credit corporations

and livestock loan companies. The total of these loans was approximately $1,457,000 and represented assistance in the capitalization of 52 credit corporations and livestock loan companies. In 1932, Congress made available to the Secretary of Agriculture a $10,000,000 revolving fund for a similar purpose. The provisions for the establishment of regional agricultural credit corporations by the Reconstruction Finance Corporation, however, practically eliminated the need for loans from the revolving fund. So far loans have been made by the Secretary of Agriculture to the stockholders of only two loan agencies, in a total amount of $60,000.

The effectiveness of the Federal intermediate credit banks in meeting the production credit requirements of agriculture has been handicapped by the lack of local rediscounting agencies. Only about 400 credit corporations and livestock loan companies were discounting on November 30, 1932. Many of these corporations have their capital impaired by "frozen" loans, and will have to curtail their lending operations until they can work out of their present difficulties, or until new capital can be obtained. Some of them are liquidating their holdings and probably will not reenter the field. At the same time, however, some new corporations have been organized to provide additional credit facilities.

Country banks have been relatively unwilling to utilize these rediscount facilities because of the limited margin permitted, and because of alternative sources of rediscounting with their correspondents in the larger cities and with the Federal reserve banks.

The recent legislation aimed at improving the marketability of Federal intermediate credit bank debentures has resulted in a relatively lower rate of interest to farm borrowers. The maximum rate which can be charged a borrower is now only 6 and 6½ percent.

*Regional credit corporations.*—Under authority conferred by the Emergency Relief and Construction Act of 1932, the Reconstruction Finance Corporation has set up and is operating 12 regional agricultural credit corporations to make direct loans to farmers. One corporation has been set up in each Federal land bank district, and in addition 20 branches have been established.

Three types of loans are available through these institutions: Livestock, crop production, and advances secured by stored farm commodities. Under the terms of the act, loans must be "fully and adequately secured." At present, loans are not being made with a maturity longer than 1 year. So far, the chief activity has been devoted to the making of loans on livestock security. On March 10, 1933, approximately $67,000,000 had been advanced, and applications approved or pending totaled about $134,000,000 additional. These corporations have not been in operation sufficiently long to make it possible fully to appraise their effect on the debt situation.

*Federal seed loans.*—Emergency credit for financing crop-production requirements has been made available in 9 different years. Excluding the first loan fund which was made available by an Executive order of the President, the record of the emergency loan, or "seed loan" funds to June 30, 1932, is shown in table 21.

TABLE 21.—*Record of emergency loans ("seed loans"), March 3, 1921, to June 30, 1932*

| Appropriation act | Number of loans | Amount loaned | Amount collected |
|---|---|---|---|
| 1921, act of Mar. 3, 1921 | 13,935 | $1,957,407.20 | $1,358,999.86 |
| 1922, act of Mar. 20, 1922 | 11,968 | 1,480,106.69 | 1,138,857.01 |
| 1924, act of Apr. 26, 1924 | 3,152 | 413,983.15 | 288,467.56 |
| 1926, act of Feb. 28, 1927 | 908 | 244,204.68 | 108,347.50 |
| 1929, act of Feb. 25, 1929 | 46,067 | 5,758,650.34 | 4,679,177.72 |
| 1930, act of Mar. 3, 1930 | 45,311 | 5,340,727.38 | 3,376,337.33 |
| 1931, act of Dec. 20, 1930 | 279,297 | 39,633,728.77 | [1] 14,188,002.02 |
| 1931, act of Feb. 14, 1931 | 145,055 | 14,264,559.31 | [1] 1,275,846.94 |
| 1931, act of Feb. 23, 1931 | 14,375 | 1,872,432.77 | [1] 606,226.12 |
| 1932, act of Jan. 22, 1932 | 511,037 | 64,874,544.21 | [2] 16,415,968.85 |

[1] On June 30, 1932, borrowers had deposited collateral, principally cotton, to a value of more than $12,000,000, in addition to their principal payments.
[2] As of Dec. 20, 1932.

With the exception of the last appropriation, these emergency loan funds were made available to limited areas which had suffered from some climatic disturbance such as drought, storm, hail, or flood. In 1932, a departure from the previous policy was effected by giving the Secretary of Agriculture authority to make loans "where he finds that an emergency exists as a result of which farmers are unable to obtain loans for crop production." As a result of this provision, loans were made in every State with the exception of Rhode Island.

The States including the various areas which were ruled eligible to receive Federal emergency loans under these various appropriations are shown in Figure 7. Some regions have received this type of financial aid as many as five times since 1921. The frequency with which various areas have participated in these loans is shown, on a county basis, in Figure 8.

In general the purpose for which these loan funds could be used was limited to specific expenditures such as the purchase of seed, feed for work stock, fertilizer, and fuel and oil for tractors. In 1931, the act of February 14 included expenditures for other miscellaneous needs under the classification of "general rehabilitation." This act also made provision for loans to individuals to purchase stock in agricultural credit corporations and livestock loan companies. Under this provision, loans were made to the stockholders of 52 credit corporations and livestock loan companies in a total amount of $1,457,000. In the last half of 1931 and early 1932, a considerable volume of loans was also made for the purchase of feed for livestock. Such loans in an amount of approximately $8,125,000 were made in 11 drought-affected States. In table 21, these loans are included in the total advances made under the act of February 14, 1931.

## READJUSTING FARM-MORTGAGE DEBTS

The farm-debt situation has reached a condition in which many loans require changes in their terms and conditions, and others require more drastic adjustments. The future of the situation must depend to a very considerable extent upon the trend of agricultural income. The decline in farm prices has been so drastic that many farmers whose land was only moderately encumbered 4 or 5 years ago are unable to realize sufficient income to pay their interest and taxes. Farms carrying heavy indebtedness in many cases cannot be sold for the amount of the debt.

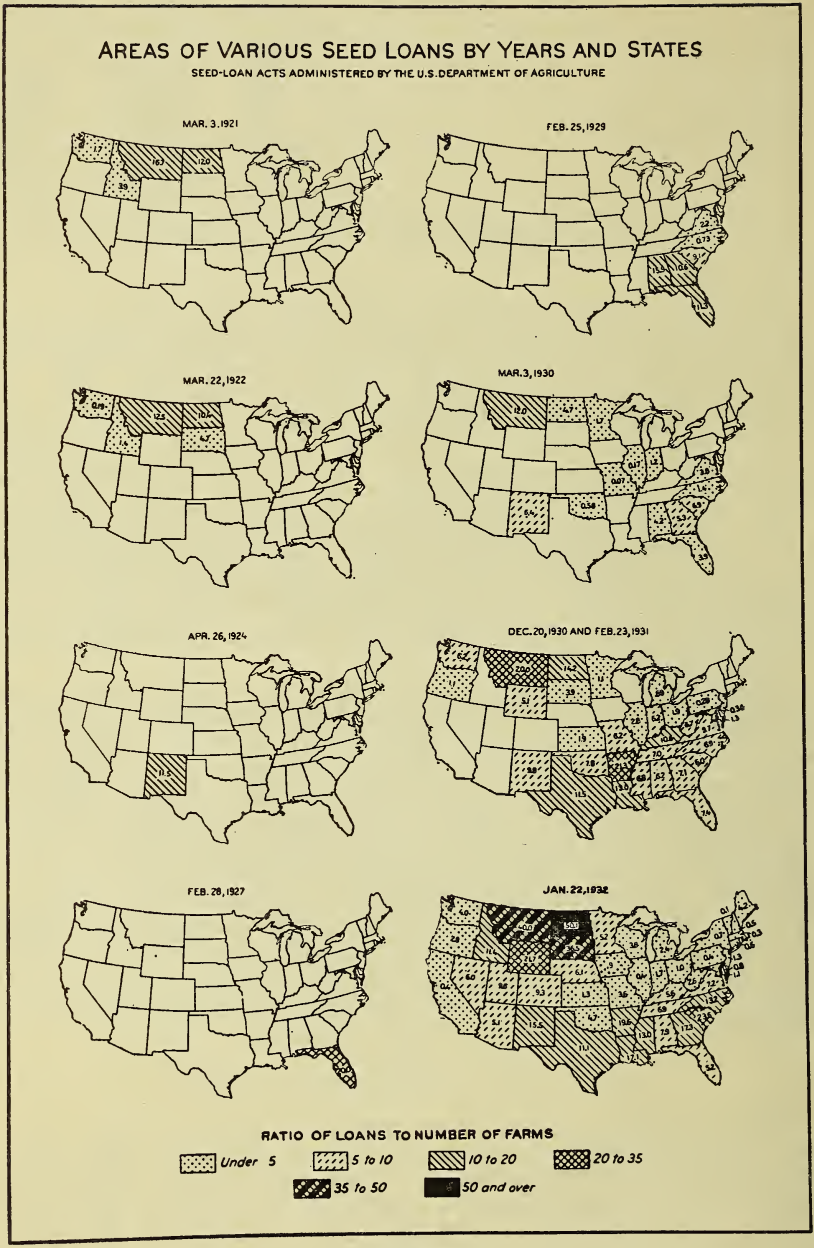
AREAS OF VARIOUS SEED LOANS BY YEARS AND STATES
SEED-LOAN ACTS ADMINISTERED BY THE U.S. DEPARTMENT OF AGRICULTURE
MAR. 3, 1921
FEB. 25, 1929
MAR. 22, 1922
MAR. 3, 1930
APR. 26, 1924
DEC. 20, 1930 AND FEB. 23, 1931
FEB. 28, 1927
JAN. 22, 1932
RATIO OF LOANS TO NUMBER OF FARMS
Under 5
5 to 10
10 to 20
20 to 35
35 to 50
50 and over

FIGURE 8.

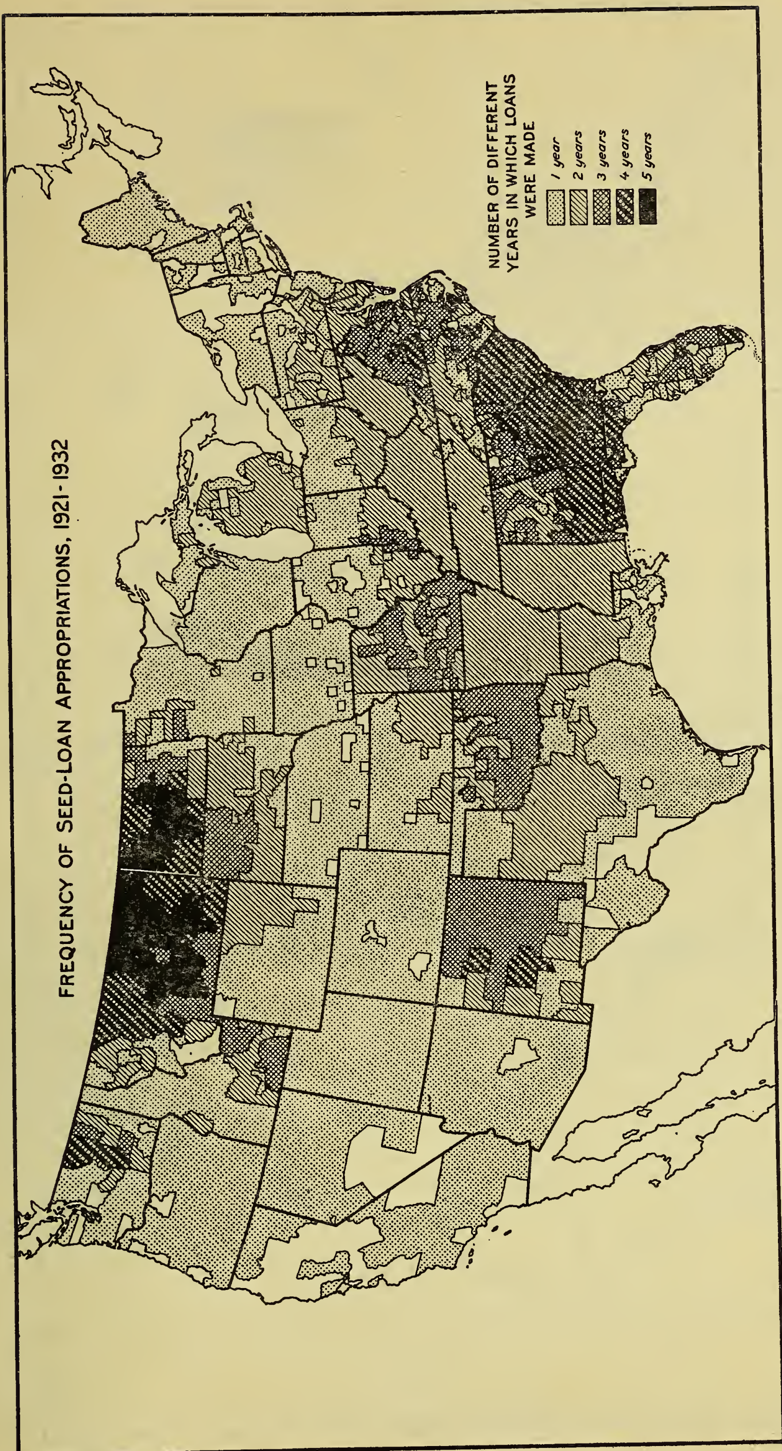


FIGURE 9.

166628—33——4

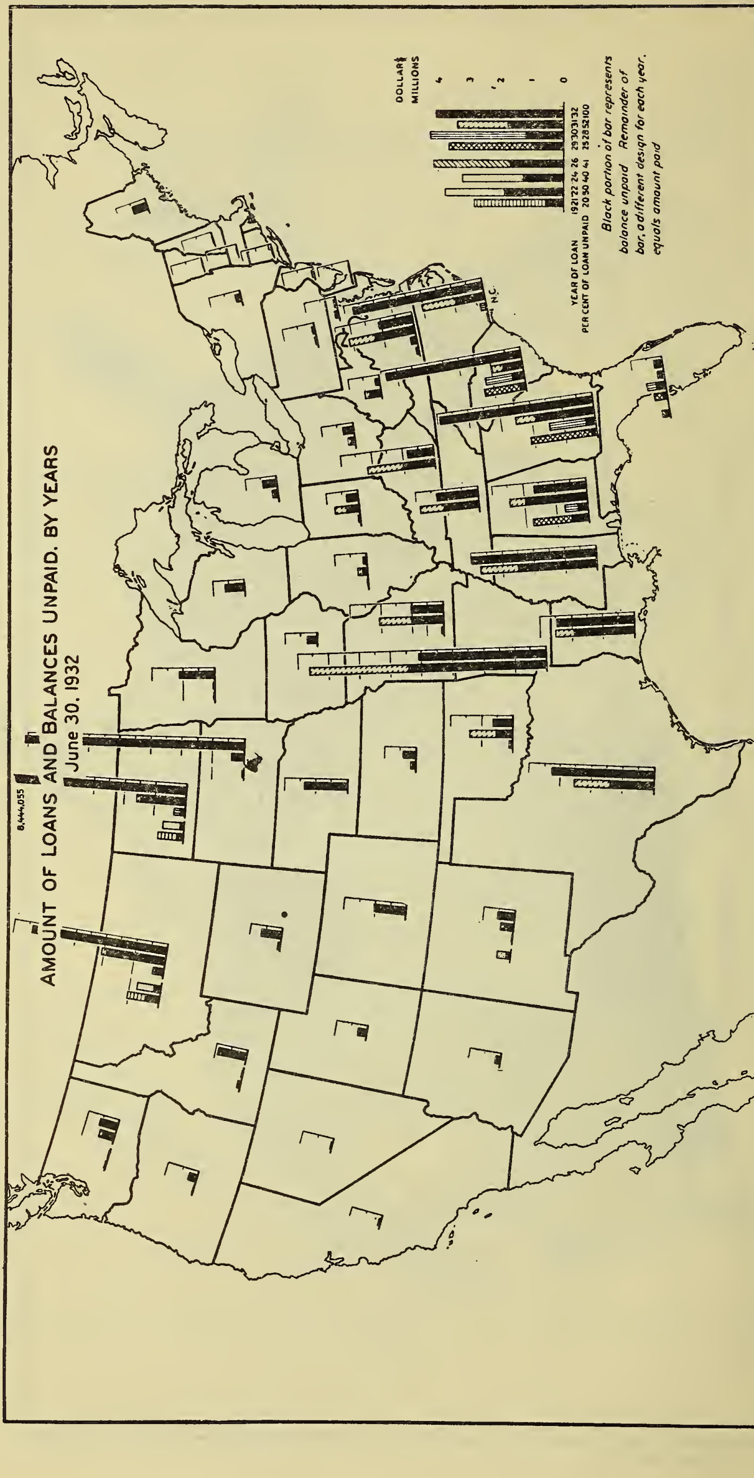
AMOUNT OF LOANS AND BALANCES UNPAID, BY YEARS
June 30, 1932
8,444,055
DOLLARS MILLIONS
4
3
2
1
0
YEAR OF LOAN 1921 22 24 26 29 30 31 32
PER CENT OF LOAN UNPAID 20 30 40 41 25 28 52 100
Black portion of bar represents balance unpaid. Remainder of bar, a different design for each year, equals amount paid
N.C.

FIGURE 10.

Under these conditions many farm-mortgage creditors have in effect already lost a part of their investment. Unless prices advance materially, it is no longer a question whether creditors shall shoulder a loss on many of their farm mortgages that have become disproportionate to existing incomes and values. The question now is how to meet the situation with a minimum of loss to creditors and a minimum of hardship to debtors. The accumulation of delinquent payments, both for interest and taxes, has become so large that even though prices do advance, there will be need for readjustment of various kinds to enable the farmer to meet his obligations.

Out of the total of "distressed" farm mortgages there undoubtedly is a large portion which requires relatively slight adjustment. Leniency in regard to the time of interest payments and a delay in the payment of amortization or installments of principal might be adequate in a great number of cases. In other cases it might suffice to reduce the interest rate in order to bring the debt within the carrying capacity of the debtor. There are many cases, however, which will require some more drastic treatment. In these cases the load of debt, contracted at much higher prices, is so heavy that it requires some reduction of the principal. Any attempt to meet the problem will need to recognize these variations in the requirements.

In plans for ameliorating the farm-debt situation it is essential that the interests of both the creditor and the debtor be given fair consideration. If drastic action is taken to coerce the creditor, agricultural credit facilities in the future will suffer from a curtailed supply of loanable funds or from higher interest rates, or possibly from both. In the case of farm debtors who are hopelessly involved and whose debt-paying ability and record have been poor, even in more nearly normal years, there may be no sound alternative to foreclosure.

With respect to borrowers whose indebtedness is moderate and whose past record has been satisfactory, temporary leniency in postponing a portion or all of the current payments may permit them to make such readjustments, assuming a moderate improvement in prices, as will enable them to meet their obligations in full. To institute foreclosure procedure in such cases is to encumber the land with unnecessary costs and to add needlessly to the volume of foreclosed land seeking a market.

Where the land is encumbered in excess of the amount which could be realized from a forced sale of the property, foreclosures usually mean added expense to the creditor. If the present owner has operated the farm with reasonable efficiency and has evidenced honesty and fairness toward the creditor, a readjustment in the debt burden by the creditor will mean less loss to him than would be involved in dispossessing the delinquent borrower. If a loan is foreclosed and the farm is retained for a time by the creditor, the latter's annual rental income therefrom is likely to be smaller than the annual payment that the former owner would have been willing and able to make toward the maintenance and ultimate extinction of a readjusted loan. If on the other hand the creditor promptly throws the foreclosed farm on the market, he thereby helps further to demoralize the market and to undermine the value of the security for other farm-mortgage loans.

An attempt under existing conditions strictly to enforce legal rights in many cases will not only mean needlessly increased losses to

creditors but it will also inflict much needless hardship upon thousands of farmers who are willing to devote every effort to the conservation of their homes, which in many cases represent the only tangible gains of a lifetime of work. Such attempts already have been the source of discontent and serious resentment not only against the creditors in question but against all credit institutions. The best interests of creditors as well as debtors appear to demand action of a remedial character that will avoid as far as possible the losses and hardships involved in foreclosures.

The standard or measure for readjustment cannot be fixed for all cases. It is apparent, however, that charges in distressed cases cannot be met unless they bear a reasonable relationship to farm production and income. This raises the question whether maximum feasible current charges can well be set in rigid money terms. Interest and amortization charges representing the money equivalent of a fixed share of the crops might produce the creditor more income, and at the same time be more easily borne by the debtor. Payments to vary with an acceptable index of farm commodity prices would accomplish somewhat the same result. It would differ, however, in representing a broad average rather than the production of the farm in question. Obviously the limit of payment for a distressed debtor is a reasonable portion of his production. Any adjustment with the present creditor calling for further payments than this, must rest upon an advance of funds for current charges from some other credit agency. Otherwise the only possibility of preventing foreclosure is a refinancing by a credit agency which extends the payments over a longer period, lowers the interest rate or reduces the principal.

## SOME METHODS OF ADJUSTING FARM-MORTGAGE DEBT IN THE UNITED STATES AND OTHER COUNTRIES

There have been three general types of approach in the past few years to the problem of farm debt adjustment:

1. Voluntary agreements—
   a. Between individual debtor and creditor.
   b. Between cooperating groups of creditors and their debtors.
2. Legislation to facilitate debt adjustments—
   a. By mediation.
   b. By extending financial assistance through—
      (1) Subsidies to reduce interest rates.
      (2) Loans for delinquent current charges.
      (3) Refinancing of distressed mortgages.

3. Compulsory legislation, enacting a moratorium, a reduction in interest rates or in principal, or other readjustment. The action under this approach usually has taken the general forms:
   a. A moratorium, complete or partial.
   b. A lowering of interest rates.
   c. A scaling down of principal.
   d. Assistance to debtors in carrying current charges.
   e. Refinancing of distressed debtors.
   f. Loans to debtors to repurchase foreclosed farms.

1. *Voluntary agreements.*—The first method for obtaining adjustments, that of individual voluntary action, has been utilized in scat-

tered instances over the country to: (*a*) Postpone temporarily current payments in whole or in part; or (*b*) in the case of heavily indebted farms, to scale the debt burden down to the debtor's capacity to pay, or to a level which represents the amount which the creditor could realize otherwise. In many cases, the procedure has been to cancel all or a part of the accrued interest payments, and to rewrite the mortgage for a reduced amount to bring it within the current income-producing capacity of the farm. The debtor is thus permitted to continue in possession of the farm, in the expectation that he will be able carry the mortgage.

Another plan that has been advocated and used to some extent by individual agreement, is that of accepting from the farmer a voluntarily given deed to the farm in satisfaction of the excessive mortgage, with the understanding or agreement that he will be given a term lease together with a contract to repurchase the farm within a specified period on stipulated terms and conditions. This plan too avoids the expense of taking over the property and leaves the former owner in practical possession of the farm. It also gives him a chance once more to obtain legal ownership if the price situation improves and if he utilizes the farm to best advantage.

Recently individual voluntary agreements have attempted somewhat more specific adjustments of the debt burden to the carrying capacity of the debtor. Under one plan the annual interest obligation is adjusted to a stipulated share of the farm production. Under this plan the debtor pays as interest on his loan each year a sum in no case exceeding what he would, as a tenant of the farm, pay his landlord, and not exceeding the amount due as interest for the year on the outstanding principal at a stipulated rate.

One plan developed by the Iowa State College provides for an adjustable scale of interest payments based on a price index for agricultural products. The following is quoted from an agreement in force between a creditor and a debtor:

> In consideration of $1 and other valuable consideration, the mortgagor agrees to pay and the mortgagees agree to accept, during the year commencing March 1, 1932, interest annually, to be paid at the rate of 5½ percent on a principal sum proportional to the simple average of the monthly index numbers of the prices of the 10 Iowa farm products as computed by the department of agricultural economics of Iowa State College and published in Agricultural Economic Facts, the payment of interest to be proportional to the simple average of the monthly index numbers of the prices of farm products for the 12 months beginning with March of 1932 and being proportional to said average as shown in the following table, except that in no case is interest to be on a principal sum in excess of the existing indebtedness.
>
> The principal sum per acre on which interest is to be computed when the index number is 170 shall be $202.30; 160, $190.40; 150, $178.50; 140, $166.60; 130, $154.70; 120, $142.80; 110, $130.90; 100, $119; 90, $107.10; 80, $95.20; 70, $83.30; 60, $71.40; 50, $59.50.
>
> Interest for the year shall be due and payable within five days after publication of the prices of farm products for February, 1933, "Agricultural Economic Facts."

As the price index numbers and the computed land values vary in exact proportion to each other, the agreement calls for a variation of the interest rate with the price index. It amounts to paying in interest on each acre mortgaged a sum equal to 6.545 percent of the price index. The insertion of a maximum interest charge would seem unnecessary, and possibly unreasonable. As mentioned, the interest will vary with an average Iowa farm price, not with returns from the farm in question. The State index should be a reasonably

satisfactory basis, however, except in case of local crop failure. Such index is readily ascertained by both debtor and creditor.

In numerous cases, voluntary action for debt adjustment has been cooperative or collective, instead of individual. Groups of mortgage agencies have in various cases collaborated in attempting to solve the farm debt problem confronting them. A group of 15 or more prominent life insurance companies is represented in an insurance farm-mortgage conference, and through this organization these companies are giving attention to the problems of delinquent mortgages and methods of dealing with them. Regional land owners' associations have been established in many areas by groups representing unwilling owners of farms, including life insurance companies, mortgage companies, and banks. Their purpose is to promote sane foreclosure policies and judicious handling of foreclosed lands.

Recently there was set up in the State of Iowa, through joint action of the Iowa Farm Bureau Federation and certain farm mortgage agencies a State agricultural credit council under which it is planned to organize local agricultural credit councils in each county in the State. The purpose of these councils is to advise with distressed farm mortgage debtors and their creditors with a view to bringing about such adjustments as will, whenever possible, leave the owner in possession and hold the creditor's prospective loss to a minimum. A similar movement has been initiated in other States.

These last two instances introduce a significant element into the voluntary agreement between debtor and creditor. For the most part cooperative action of this kind has been instituted by creditor interests. Without conscious guidance the debtor interest is likely not to be well represented under these conditions. Furthermore, without unified organization and direction on sound long-time principles, there often is an economic incentive, almost irresistible, for creditors to liquidate delinquent mortgages quickly. For instance, short-term creditors with farm chattels as security may force foreclosures. The State bank examiner of one agricultural State is reported to have notified the receivers of closed banks to collect on all collateral possible. If other creditors take from the debtor his income-producing chattels, the mortgage holder may have no course open but foreclosure. With the assistance of an agency representing both creditor and debtor interests, as well as a representative of the State college, the State administration or the Federal Government as impartial associates, direct voluntary agreements should be feasible in a great number of cases.

*2. Legislation to facilitate adjustment of farm-mortgage debts.*—Under this approach, legislation to facilitate the adjustment of farm-mortgage debts has been utilized in foreign countries. In the Union of South Africa such a plan sets up committees whose purpose is to induce creditors to grant extensions of time of payment in deserving cases. Such committees have been appointed in nearly all of the 200 magisterial districts to intervene on behalf of farm debtors. These groups, which are called vigilance committees, were appointed in November 1930, when the agricultural depression became acute. Each committee consists of 10 to 20 members, with the magistrate of the district as chairman.

In actual practice, however, two or three members of the vigilance committee, together with the magistrate, constitute an executive

committee to handle the negotiations. Large or difficult cases are referred to a central committee, of which the under secretary of agriculture is chairman. The operation of these committees is patterned after experience under a similar plan during a critical period in 1922.

The essential difference between this plan of encouraging agreements between debtor and creditor and the methods discussed just preceding appears to be only that in the Union of South Africa the initiative lay with the Government, and an official mediator was created in each district. The spirit of the legislation appears to have been to protect the debtor.

The Italian Government has made extensive provision for the refinancing of excessively indebted farms through the established financial institutions. A subsidy, however, is contributed by the Government which reduces the annual interest rate which the borrower must pay. Provision has also been made in Italy for the refinancing of delinquent installments of loans. Certain types of crop production advances are also refinanced and payments spread over a considerable period of years.

Various legislative proposals to facilitate farm-mortgage adjustment in the United States involve an amendment to the Federal Farm Loan Act to enable the Federal land banks, with assistance from the Reconstruction Finance Corporation or from the United States Treasury directly, to refinance distressed farm-mortgage creditors. Plans of this kind usually assume that existing mortgage holders whose loans equal or exceed the value of the security will accept an amount in payment of the loan within the income-producing capacity of the farms in question.

Obviously such a plan would require an extensive modification and reorganization of the Federal Farm Loan System. Either the Federal Government would in effect have to buy or guarantee all Federal land bank bonds, including, of course, all new issues required for such purposes or to reimburse each bank for losses involved in handling the refinancing of distressed farm-mortgage borrowers. If the purchase of stock in the Federal land bank were required, such stock should probably be differentiated from the stock representing the existing associations or direct borrowers.

*3. Legislation for compulsory farm-mortgage debt adjustment.*—In foreign countries, governmental action to adjust the farm debt situation has been principally of two types. First, mediation to encourage voluntary agreements between debtors and creditors for the reduction of principal or for a moratorium, already discussed; and, second, legislation giving mediators legal authority to scale down principal or interest rates.

In Finland the governor of each Province is authorized to postpone debt payments. This law is applicable only to farmers who are considered able to pay their debts eventually if granted a temporary moratorium. The individual farmer who desires to avail himself of this law submits an application, accompanied by a detailed statement of his financial condition, to the appropriate distraint officer, who is required to call a meeting of the creditors at the expense of the debtor. The governor determines whether a postponement of payments is to be granted. A postponement of debt payments is not granted if it appears that the applicant's assets are not sufficient to cover his debts or if the applicant has not presented evidence to the effect that he can

pay his debts if granted postponement. Neither may postponement be granted if it appears that the applicant has acted in bad faith against his creditors. Numerous exceptions are made as to the type of debts covered by the moratorium, chief exceptions being taxes, interest and amortization on long-term loans, and specific payments required in contracts for the purchase of real estate. This procedure was authorized May 10, 1932, and provides that postponement of payments cannot be granted beyond November 1, 1933.

In the Province of Saskatchewan, Canada, special facilities have been provided for the appointment of a debt adjustment commissioner, who is given complete charge throughout the Province of debt adjustments between farmers and their creditors whenever application is made by either the farmer or his creditors. The power conferred upon the commissioner may be transferred to his assistants. All sheriffs, land clerks, and registration officials are to do all that is required of them without fee. The commissioner is required to investigate the validity of various claims, and if he is satisfied that some action is needed he will issue a certificate, which will be filed in the offices of the registration clerks, land title offices, and offices of the sheriffs. The filing of this certificate prevents all proceedings in the nature of execution, sale, or foreclosure of any real property or any other measure which might arise out of a forced attempt to collect debts.

After the certificate has been issued the commissioner is virtually trustee of the property, as no transfer or sale of any kind will have any validity unless the commissioner agrees. In regard to any action of the commissioner, the creditor has the right to apply for leave to file suit with a judge of the district court in that district wherein the debtor resides. The judge has absolute discretion to grant leave to proceed against the debtor or uphold the commissioner. If the application of the creditor is refused, the judge may nevertheless impose certain terms and conditions upon the debtor. Thus, if the creditor claims that the farmer is dissipating the property, the judge may state what the farmer may and may not do with respect to the property. The farmer himself cannot appeal from the decision of the commissioner. The office of the latter was created for the farmer and the appeal right is intended to protect the creditor. A somewhat similar plan is in operation in Alberta.

In Manitoba also, provision is made for debt hearings and adjustments as under the plans in Saskatchewan and Alberta. In Manitoba, however, no creditor may proceed against the property of a farmer debtor without first obtaining permission from the debt adjustment commissioner. This serves to protect the farmer who is unacquainted with his rights under the law.

In Germany, it is provided that if a farmer is unable financially to carry on his business until the end of the 1933 harvest, he can apply to the competent district court for the opening of mediation proceedings to bring about an adjustment of his debts. If the farmer's application is acted upon favorably, a mediator under the supervision of the court is appointed. This official endeavors to get the debtor and his creditors to agree to a debt-adjustment plan. If such an agreement is obtained it must be approved by all the secured creditors and a majority of the unsecured creditors, provided that the claims of this majority represent at least two thirds of the total claims of

the unsecured creditors. The final plan must be approved by the court. After mediation proceedings have been opened, bankruptcy proceedings cannot be instituted, no new mortgage or other indebtedness may be incurred, and the forced sale of the property is suspended if it is expected that the proceedings will be successful. During the period of mediation, movable property cannot be seized, attachments cannot be executed, and temporary injunctions are inoperative. The decree which provided for this debt adjustment plan specified 10 instances where such proceedings could be refused. The following are the most important of the exceptions:

1. When the orderly conduct of the business is not in danger.
2. When the farmer's debts have not been caused by general economic developments.
3. When the farmer's means are insufficient to cover the cost of the proceedings.
4. When bankruptcy or composition proceedings have already been instituted.

The German Government has effected a temporary postponement and in some cases a reduction in interest rates of 2 percent per annum on farm mortgage loans. If the loan is repaid before a certain date, payment of the postponed interest will not be required.

The plan adopted in Poland provides for the designation of chambers of agriculture or similar agricultural organizations to act as arbitrators in the adjustment of the financial affairs of farmers who are operating farms which do not exceed in size a specified maximum acreage. These organizations are given power to determine the ability of the debtor to pay, to draw up a plan for meeting his obligations over a period of 3 years and to fix his interest rate. Unless and until a lower rate is fixed by the ministers of finance and justice, all payments may be reduced to 9 percent per annum. As in Germany, there are certain exceptions as to the type of debts that can be included under these provisions.

In considering the possible application of these compulsory debt adjustment methods in the United States, serious legal questions arise.

## SUGGESTIONS AS TO POSSIBLE MEANS OF ADJUSTING AND REFINANCING FARM MORTGAGES

A plan of debt adjustment to be successful must be based on a sympathetic consideration of both debtor and creditor interests. If the interests of lenders are interfered with unreasonably through compulsory regulations they will tend to look to other fields of investment where there is no such precedent of interference with their contract rights. As a consequence of such interference the future supply of funds for farm-mortgage loans would be curtailed, and interest rates would tend to be relatively higher. Lending agencies have obligations to policyholders, depositors, and investors whose interests are a matter of public concern as well as those of the debtors.

Many debtors and creditors without assistance will be unable to reach satisfactory debt agreements. Giving widespread publicity to sound proposals for adjusting current payments by such agreements would be helpful. The proposals for adjusting current payments on the basis of some index of farm prices or on the basis of a definite proportion of the crop are examples of this type of approach. The latter

proposal, however, is best suited to mortgage holders who, through direct relations or by effective representation, are in close contact with the borrower. Such a plan involves the difficulties of definitely determining what each mortgaged farm produced, and obtaining a satisfactory marketing of the share agreed upon. Where livestock enterprises are important factors in the farm program, additional difficulties are encountered in allocating the share due to the mortgagor.

Local voluntary committees, unless made a component of a unified system of debt readjustment, are likely to have limited results. A definite system or plan for bringing the debtor and creditor together, could well be combined with legislation to facilitate debt adjustments. Such an approach might cover all of the various kinds of adjustments outlined above.

The plan of debt adjustment, outlined below, assumes that assistance would be needed principally in cases where the debt on a farm is excessive, or delinquent, or both. If financial assistance were limited to delinquent loans, it would tend to give preference to debtors who in general have been less prudent in their financial affairs. Farmers who are excessively indebted but who by undue sacrifice have managed to keep their loans in good standing should not actually have to become delinquent before being eligible for financial assistance.

## PLAN FOR VOLUNTARY READJUSTMENT OF FARM MORTGAGE DEBT

A. The Secretary of Agriculture would be directed by Congress to appoint not less than 6 nor more than 12 regional debt adjustment counselors whose duties would be:

1. To appoint, or help to bring about in each agricultural county, or other suitable area, the appointment of a voluntary debt adjustment committee of from 3 to 7 members, consisting of farmers, business men, and bankers.

2. To appoint, or recommend for appointment, as many district debt counselors as would be required to contact the county committees at frequent intervals.

3. To act as liaison officers between county committees and the governmental agency, described below, for the financing of current charges or refinancing of debt.

B. The regional credit corporations, under proper limitations, would be authorized to make loans direct to farm debtors for paying interest, amortization installments, and taxes for a period of not more than two years.

C. The Federal land banks using funds obtained from the Reconstruction Finance Corporation would be authorized to refinance, under certain conditions, existing indebtedness of farm owners, including interest and taxes. The land banks would be authorized to purchase existing mortgages, or to exchange Reconstruction Finance Corporation bonds therefor. If the Federal land banks were to be authorized to issue bonds, guaranteed in whole or in part by the Federal Government, it would be possible, when the bond market improves, to refinance outstanding bonds at a lower interest rate. Such reduction would be passed on to all land-bank borrowers.

Under this plan any farmer who was unable to meet his mortgage payments, or any creditor who held a delinquent farm mortgage, or

held a mortgage on a farm on which taxes had become delinquent, or any farm mortgage debtor and creditor who agreed that the mortgage in question must otherwise presently become delinquent, would have the right to apply to the county committee for assistance in negotiating a voluntary debt adjustment between them. The committee would endeavor to reach a feasible and fair adjustment of the terms of the debt, or if it seemed imperative, to obtain a reduction of the principal.

The district debt counselors would be required to contact the county committees at frequent intervals. Conferring with the committees frequently, being acquainted with the work over a wide area, and being in close touch with the regional debt counselor and the loaning and refinancing agency described below, the counselors would be able to assist the committees in their activities. Cases involving unusual difficulties would be referred to the district counselor. For this purpose the counselor might sit with the committee at certain intervals.

A sufficient appropriation would be made to employ competent regional and district counselors and to provide necessary stenographic and clerical assistance.

Briefly summarized, the advantages of this plan is that it provides for—

1. A method for covering all areas where need for debt adjustment appears.
2. Effective coordination of local committee's activities so that each county or other suitable area would receive the benefit of experience elsewhere.
3. Frequent direct contact by Federal officials with committee members to establish a more effective working organization.
4. Reference of difficult cases to counselors.

The county committees, the district debt counselors, and the regional debt counselors should be made the necessary approach through which to reach the facilities created for mortgage refinancing.

## SUPPLEMENTARY CREDIT FACILITIES

This plan of coordinated debt adjustment committees should be helpful in encouraging and assisting voluntary adjustments between creditor and debtor. Many cases, however, require either loans for current charges or partial or total refinancing to prevent foreclosure and yet conserve or improve the creditor's interest. For this purpose the regional agricultural credit corporations would provide loans for interest, amortization installments, and taxes; and the Federal land banks would be authorized to refinance distressed farm mortgages.

*Loans for interest, amortization installments, and taxes.*—Direct loans would be made by the Regional Agricultural Credit Corporations to farmers for paying not more than two years' taxes, interest, and amortization installments, such loans to be made subject to the following conditions:

(*a*) No application for a loan or advance to any person whose farm-mortgage loan has been maintained in good standing would be approved, unless in the judgment of a voluntary debt-adjustment committee or a debt-adjustment counselor, the applicant is unable

to make future payments for interest, or amortization installments or taxes, without the assistance of such loan or advance.

(*b*) The amount of such interest, amortization installments, and taxes would be added to the principal of the mortgage loan. Participation certificates, representing a proportional ownership in the loan, would be issued by the holder of the first mortgage in the amount of such advances. These participation certificates would be delivered to the Regional Credit Corporations as collateral for their advances. In the event of foreclosure and sale of the acquired property the Regional Agricultural Credit Corporations would share any loss on a pro rata basis, such losses to be repaid from the central loss adjustment fund.

(*c*) Loans for delinquent taxes would not cover more than 1 year of such taxes. If taxes are delinquent for more than 1 year, loans for interest and taxes should be conditioned on the State making such adjustment relative to delinquent taxes beyond 1 year as would avoid sale of the property, during the life of such loans. The States should assume at least this degree of responsibility in a general program to give farmers a chance to save their farms.

(*d*) Loans for this purpose would be made only where the mortgagee agrees to extend the maturity of the loan for a period of not less than 10 years.

(*e*) Other creditors would be required, subject to reasonable exceptions, to agree for the benefit of all creditors to refrain from forced collection for some reasonable stipulated period.

(*f*) The mortgagee would be required to allocate out of the annual interest payments made by the borrower, one half of 1 percent of the principal amount to the amortization of the participating certificates. A similar amount would be contributed by the central loss adjustment fund, as later explained.

*Expanding the lending facilities of the Federal land banks.*—Federal land banks would be authorized to refund existing indebtedness, including taxes and interest, of distressed farm-mortgage debtors, into long-term amortized loans. Such loans would not be eligible as security for Federal land-bank bonds but would be used as security for collateral trust certificates. These certificates would then be purchased by the Reconstruction Finance Corporation. Maximum loans would be made in an amount not in excess of 75 percent of fair value. In determining fair value, the average farm income in the last 5-year period, trends of agricultural prices and of land value, and other information bearing on the reasonable valuation of the property would be taken into account.

Much of the present farm-mortgage difficulty is represented by loans which, prior to the beginning of the sharp drop in commodity prices in 1929, were considered within reasonable limits in relation to the then current level of farm income and property values. As the result of the drop in farm income and the abnormal volume of farms thrown on the market through forced sales, the drop in land values has impaired the security of a considerable portion of these loans. Assuming that a material improvement in farm prices and income will occur eventually, it appears sound to provide facilities for refinancing these loans up to 75 percent of the fair value of the property. This assumption—namely, that economic conditions will improve—is fundamental to present reconstruction financing in general.

The proposed plan of refinancing would tend to halt the dumping of farms upon the market by foreclosure and would help to strengthen land values. This in turn should reduce the number of prospective applications for refinancing of loans.

In the present depressed land market, fair values cannot be ascertained on the basis of current land sales. The entire debt adjustment system necessarily would depend on estimated fair value based on reasonable debt-carrying capacity of the mortgaged property over a period of years more nearly normal than the present. Fair value of the property must be clearly distinguished from forced sale or foreclosure value.

*Funds to refinance loans.*—The Reconstruction Finance Corporation would be authorized to purchase from the Federal land banks collateral-trust certificates secured by an equivalent amount of refunded mortgages, such certificates to bear an interest rate of not more than 3¼ percent. In order to provide a flexible program of refinancing to meet the requirements of mortgagees who are unable or unwilling to scale down the principal of the loan but who would be willing to exchange such obligation for a low-interest-bearing bond, provision would be made for making payment of refunded loans in Reconstruction Finance Corporation bonds.

*Central loss adjustment fund.*—If borrowers were charged 5 percent interest on their loans and the Federal land banks 3¼ percent on their collateral trust certificates, there would be an annual margin of about 1¾ percent which would be distributed somewhat as follows:

To the Federal land banks to defray costs of making and servicing loans, one half of 1 percent.

To the Reconstruction Finance Corporation to be held in a central loss adjustment fund, 1¼ percent to be utilized for (a) offsetting possible losses incurred on sale of land resulting from foreclosure of loans deposited as security for collateral trust certificates; (b) offsetting possible losses on loans made for paying interest and taxes, as outlined above.

This plan for farm debt adjustment would coordinate direct adjustments between debtor and creditor, with a method of refinancing mortgages which cannot be so adjusted. Loans and advances for current charges or for refinancing would not be so attractive as to discourage direct adjustments.

The plan provides facilities primarily to help indebted farmers to retain farm ownership. Such loss as creditors would assume in scaling down their original claims, in all probability would be far less than the losses they would be required to bear if no opportunity were afforded for systematic adjustment and refinancing. Extension of financial aid is predicated upon some material increase in farm income. If agricultural prices should recover substantially, agricultural credit facilities in the future will be relatively less injured if proposed readjustments in mortgage debt do not attempt to coerce the creditor. On the other hand, if prices continue low, it will be necessary, perhaps, to make more extensive readjustments than the public would be willing to accept at this time.

Specific advantages of this plan of refinancing distressed farm debtors may be briefly enumerated:

(1) It should involve no material cost to taxpayers, assuming reasonable improvement in commodity prices within a few years, as

a margin for losses involved is provided by the lower rate at which funds can be obtained through Government borrowing.

(2) It should encourage debt reduction on farms excessively mortgaged. If opportunity were offered mortgage holders to realize on their delinquent loans, an amount equal to the face value of the loan or 75 percent of the value of the farms valued as herein suggested, whichever were lower, there would be considerable inducement to reduce the debt so that the mortgagor could refinance under the new provisions.

(3) It would materially increase the soundness of the financial structure of agriculture by increasing the percentage of debt based on long-term obligations with provision for amortization of principal.

(4) It would give renewed hope to borrowers having short-term mortgages which have matured, or will shortly mature. Even if lending agencies holding such short-term mortgage loans are following a lenient policy in carrying the borrower for delinquent interest and taxes, the borrower has no assurance that his loan will not be foreclosed if conditions improve sufficiently to enable the lender to sell the security without loss.

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